CHALLENGES, VULNERABILITIES AND WAYS OF APPROACH IN ROMANIA'S EXTERNAL DEBT SUSTAINABILITY

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Introduction

The notion of a country's external debt, measured by a complex system of static and dynamic indicators, knows a lot of approaches and opinions in the literature, more or less convergent, complementary and advanced in terms of factors.

Indicators of the external public and private debt on short, medium and long term provide a snapshot of indebtedness of the country and are the most researched domain in the literature, including national and international financial bodies, which adopt a series of classification criteria of countries in terms of size and dynamics of external debt.

In this study, we intend to make an analysis of the volume, dynamics and structure of the current Romania's foreign debt, showing the challenges for national economic policies, present and perspective, the internal and external vulnerabilities and ways of approaching the external debt sustainability.

According to the definition given by UNCTAD, a sustainable foreign debt is that level of debt which:

- *allows the indebted country to pay all current and future debt service **without resorting to restructuring** or rescheduling;*
- *prevents accumulation of arrears and defaults;*
- *in parallel provides an acceptable level of growth in the lending country.*

Until recently, Romania was considered a country with a low external debt. Currently, the situation has changed, meaning that this debt, somewhat neglected in the early transition period[1] has become a serious threat to present and future sustainability of economic development in Romania.

*In general, external debt concerns financial and economic interests of all parties especially creditors and debtors, by the formula "win-win", so that, currently, some countries have **surplus** of balance of payments, usually the most developed and economically healthy, while others have **deficits** that, in extreme situations, can lead to inability to pay the debt, which means tough measures and policies, especially for the living standards of many generations of taxpayers.*

Chapter 1. Features of the volume, structure and dynamics of Romania's foreign debt

Romanian cooperation with international financial institutions is not recent. If we don't consider the period before 1990, we can say that the period from 1991 to 2011 saw some stand-by arrangement with the IMF which Romania has made for various reasons, the latter regarding the impact of international economic and financial crisis which manifested itself in Romania stronger and longer than in most of the developed EU countries and in some new EU member states.

During 2005-2010, total external debt of Romania increased from 38.511 billion USD to 120,436 billion, representing a proportion of 75%. In other words, there was an increase of about 3.12 times, this representing the macroeconomic indicator with the highest dynamic the result of which was to record an absolute record, unprecedented in the economic history of the country, in terms of the size of the indicator, and its dynamics under the circumstances in which the level of the country's economic and social development of 1989 was reached in 2003-2004, while the GDP growth was only 138.1% during 2002-2009, which leads us to believe that the elasticity of GDP to external debt was very low.

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[1] Several studies have shown the need to pay attention to Romania's foreign debt even since the early years of transition (see Gh.Zaman, 1993, Datoria externă obsesia de care nu scăpăm (External debt- the obsession we cannot escape from), *Capitalul (The Capital)*, June 26, pg.3).

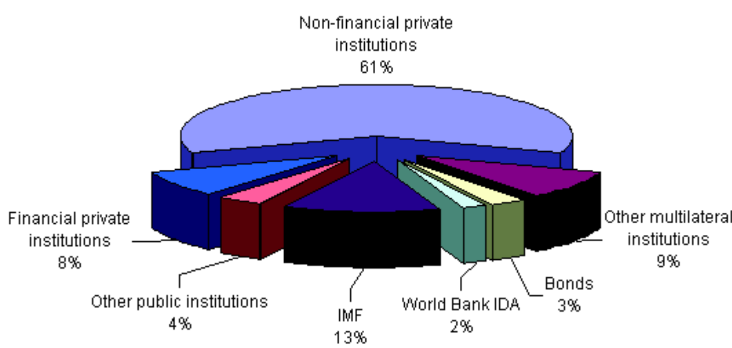
Table no.1.1 Total external debt of Romania in 2005-2010[1]

billion U.S.D.

	2005	2006	2007	2008	2009	2010	2010/ 2005 %
	In billions of U.S. dollars						
Total external debt of which:	**38,5**	**51,7**	**80,2**	**105,7**	**111,8**	**120,4**	**313**
Public	14,1	13,4	14,4	16,4	27,8	37,3	265
Loans	6,2	6,0	6,4	7,9	19,7	28,7	462
Multilateral	6,1	5,9	6,3	7,8	19,6	28,7	470
Bilateral	0,1	0,1	0,1	0,1	0,07	0,08	80
Bonds	3,3	3,2	3,3	3,9	3,9	3,8	115
Others[2]	4,5	4,2	4,6	4,5	4,2	4,7	104
Private	23,3	37,0	64,8	88,95	83,8	82,9	356
Short term	7,8	15,8	26,8	29,9	19,3	22,9	294
Long term	15,6	21,3	38	59,2	64,5	60,1	385
	as a percentage of GDP						
Total external debt of which:	**38,8**	**42,1**	**47,0**	**51,4**	**68,3**	**74,9**	**193**
Public	14,2	10,9	8,4	8,0	17,0	23,2	163
Loans	6,2	4,9	3,7	3,9	12,0	17,9	289
Multilateral	6,1	4,8	3,7	3,8	12,0	17,8	292
Bilateral	0,1	0,1	0,1	0,1	0,0	0,1	100
Bonds	3,3	2,6	2,0	1,9	2,4	2,4	73
Others[2]	4,6	3,4	2,7	2,2	2,6	2,9	63
Private	23,5	30,1	38,0	49,3	51,2	51,6	219
Short term	7,8	12,8	15,7	14,5	11,8	14,2	182
Long term	15,7	17,3	22,3	28,8	39,4	37,4	238

[1)] End of year unless otherwise specified, [2)] Include private bank debt and other public debt.
Source: NBR, IMF data and own calculations.

Figure no. 1. Institutional structure of the total external debt by type of institutions in 2010



Data in Table no. 1.1 and Figure no.1 suggest some features of Romania's foreign debt, which can lead to some real challenges for present and future national economy, namely:

- the highest dynamics of external debt over the period 2005-2010 beyond the average of 313% for total foreign debt, there have been public multilateral loans, mainly due to big increases in 2008-2010, because of the crisis, followed by long-term private debt, which, unlike the public debt, after especially large increases in 2005-2008, decreased in 2010, when private sector lending became more expensive and more restrictive;

-in terms of weight in the total external debt it is by far due to private external debt of 68.8% of which 18.3% on short term and 49.9% on long term.

As for the fact that private sector is the one with the highest level of external indebtedness we shall note that there have been opinions stating that the private economic agents are free to contract external debt, as much as they can or will. This view, for the whole of sustainable economic growth in Romania, is totally wrong because:

- a part of public and private debt is guaranteed publicly so the state is to pay if the private firm enters into default, a situation that reflects unfavourably on all taxpayers;

- even the private external debt, without public guarantee, is relevant for the state because private economic collapse in case of default of debt payment, by the effects propagated (negative externalities), entails, directly or indirectly, negative repercussions on the national economy as a whole and not seldom does the state have to intervene, as was the case of the banks in difficulty in developed countries during the present crisis, when they received financial support from the state, investment injections, or were taken by the state on the ground that they were too large (important) to crack under the slogan “too big to fail”(!).

This is therefore the first challenge in terms of **complexity of the relation** between **public and private external debt** that requires further examining, taking into account the quasi-symbiotic coexistence of the two types of debt, and that neither the state nor the private firms can be **indifferent to bankruptcy or insolvency**, both of one and of the others, due to the acknowledged or disregarded, assumed or denied, relational context of the public-private, public-public and private-private partnerships. This challenge forces us to rather a rejection of the destructive competition, the market individualism, autarchy and selfishness promoted by some experts and to better cooperation and solidarity.

Another conclusion that can be drawn from the effects of crisis and not only is that neither the private sector nor the public one are exempt from the developments of the "business cycle", of recessions and crises, no matter how much they would advocate one or the other. For this reason, the use of strategic positive sum games formula such as "win-win" seems to be the wisest solution.

- **The ratio of the total external debt to GDP** gives us clues about the efficiency of the use of potential resource representing external borrowing - expressed as magnitude of GDP (effect) of production that reflects one unit of effort, which in this case is foreign debt. In other words, a medium and long term growth of external debt, faster than of GDP, generates doubts about the efficiency of the use of the borrowed money. Not vainly does the phrase "live a life on debt" have negative connotations. If in isolated cases it may be a way to "get through", even to be able to live, at the societal level such a generalization can only have negative effects, which, whether we admit it or not, practice, reality induce into us sooner or later.

In connection with this aspect of the correlation of GDP and external debt, we want to mention that there are experts who believe that having a large foreign debt is as a sign of credibility, internally or externally, and to make efforts to pay foreign debt would be a "big mistake". In support of such reasoning is brought, in my opinion totally unconvincingly, the case of periodic exemptions from external debt of **heavily indebted developing or underdeveloped** countries that enter default as well as deleting the external debt of the central European countries that have turned from a controlled, centralized economy to a competitive market economy. These examples cannot be considered other than exceptions, rare cases, which strengthen the rule of preserving the ability to pay, of solvency, based on loans designed, managed and reimbursed efficiently.

Therefore, I think that depending on the level and characteristics of the economic and social development of each country, there are **optimal or sustainable external and domestic** debt levels, on different time horizons, which only the complex, multidisciplinary approaches of teams of professionals can quantify and substantiate.

In conclusion, it can be said that the weight of the total external debt or of its individual components in GDP, is rather determined by taking into account the complex internal and external factors acting in a national economy and not necessarily the systems of standard indicators or criteria, more or less stable over time and established by various bodies and specialists. This does not mean one should neglect the standard criteria and benchmarks, but on the contrary, to see how adequate they are in each peculiar case. Even the applicability, the operational character, the convergence and adherence criteria of EMU have raised numerous objections not only of theoretical and methodological nature but mainly practical.

The evolution of external debt of Romania on quarters 1-4 2010 and quarter 1, 2011

In the last five quarters, the year 2010 and quarter 1-2011, Romania's total gross external debt increased continuously (Table no.1.2), which is more a cause for concern than a safety mark because such dynamics show that the effects of the crisis and the policies adopted to counter them so far have not proven to stop the urgent need to increase, at an unsustainable pace on the medium and long term, the indebtedness of the country, through new loans of considerable sizes, even if they are called "preventive" (precautionary).

The largest increases were reported for long-term debt of the government and the banks, respectively 1.6 billion euro and 1.2 billion euro, amounts beyond the possibilities of reimbursement, as long as its maturities make short-term debt reach more and more overburdening levels, relatively difficult to honour.

So, another challenge for the Romanian foreign debt sustainability would be the very taking of actions to stop / slow down this rapid dynamic of the burden of its external debt.

Table no.1.2. Structure on institutional sectors, maturities and financial instruments

	T1/2010	**T2/2010**	**T3/2010**	**T4/2010**	**T1/2011**
				Mil. euro	*- end of period*
Total gross external debt	86 527,9	87 785,0	89 184,0	90 908,4	93 386,2
I. GROSS EXTERNAL DEBT	71 484,0	72 244,8	73 209,2	74 918,8	77 179,7
1. Government	17414,3	17 304,8	17712,8	18 394,6	20 193,7
Short-term	1 096,0	967,0	1 232,0	1 491,0	2 217,0
Money market instruments	1 061,0	929,0	1 132,0	1 376,0	2 141,0
Loans	0,0	0,0	0,0	0,0	0,0
Cash and deposits	35,0	38,0	100,0	115,0	76,0
Long-term	16 318,3	16 337,8	16 480,8	16 903,6	17 976,7

	T1/2010	T2/2010	T3/2010	T4/2010	T1/2011
				Mil. euro	*- end of period*
Bonds	3 790,2	3 544,2	2 848,3	2 863,0	3 010,8
Loans	12 527,0	12 792,4	13 631,5	14 039,3	14 964,6
Trade credits	1,1	1,2	1,0	1,3	1,3
2. Monetary Authority	7 178,5	7 717,7	9 004,5	9 104,6	9 673,1
Short-term	57,0	79,0	48,0	22,0	6,0
Loans	0,0	0,0	0,0	0,0	0,0
Cash and deposits	57,0	79,0	48,0	22,0	6,0
Long-term	7 121,5	7 638,7	8 956,5	9 082,6	9 667,1
Bonds	0,0	0,0	0,0	0,0	0,0
Loans	7 121,5	7 638,7	8 956,5	9 082,6	9 667,1
3. Banks	21 629,2	21 107,3	21 337,0	22 688,6	22 952,9
Short-term	6 590,0	6 242,0	6 277,0	7 025,0	6 751,0
Loans	327,0	555,0	574,0	1 611,0	1 798,0
Cash and deposits	6 106,0	5 587,0	5 673,0	5 367,0	4 909,0
Other liabilities	157,0	100,0	30,0	47,0	44,0
Long-term	15 039,2	14 865,3	15 060,0	15 663,6	16201,9
Bonds	183,7	120,2	146,3	125,8	130,0
Loans	7411,9	7 460,9	7 243,7	7 310,1	7 555,8
Other liabilities	7 443,6	7 284,2	7 670,0	8 227,7	8 516,1
4. Other sectors	25 262,0	26 115,0	25 154,9	24 731,0	24 360,0
Short-term	4 457,0	5 115,0	4 751,0	4 630,0	4 620,0
Money market instruments	2,0	2,0	15,0	41,0	164,0
Loans	3 116,0	3 264,0	3 097,0	2 956,0	3 079,0
Trade credits	1 339,0	1 845,0	1 637,0	1 633,0	1 377,0
Other liabilities	0,0	4,0	2,0	0,0	0,0
Long-term	20 805,0	21 000,0	20 403,9	20 101,0	19 740,0
Loans	20 642,5	20 841,3	20 259,9	19 989,6	19 665,1
Trade credits	162,5	158,7	144,0	111,4	74,9
II. INTER-COMPANY DIRECT INVESTMENT	15 043,9	15 540,2	15 974,8	15 989,6	16 206,5
- liabilities to affiliated enterprises	18,2	0,5	3,4	9,7	10,0
- liabilities to investors (series available from December 2001)	15 025,7	15 539,7	15 971,4	15 979,9	16 196,5

Source: *NBR Data.*

The balance of chronic deficit of the balance of payments of Romania is another synthetic indicator relevant to the health of the economy and hence of the sustainability of external debt (see Table no.1.3.). The higher the current account deficit, the more difficult the financing problems.

It is noted that compared to the first quarter of 2010, in the first quarter of 2011 Romania saw a favourable trend to reduce the size of the current account deficit. What is important to note is that, except for component C - Current transfers - that has a growing surplus in quarter I.2011 compared to quarter I.2010, all other components of the current account balance – the trade balance, the services and the income – recorded **negative values**.

In the first quarter of 2011 the **current account** of the balance of payments showed a deficit of 634 million euros, down by 58.9 percent compared with the same period of the previous year, due to a trade deficit reduced by 64.6 percent and current transfers surplus increase by 68.0 percent (due to net transfers of public administration).

Table no.1.3. Romania's balance of payments and foreign debt – quarter I 2011

- million euro -

	Quarter 1 of 2010[r]			Quarter 1 of 2011[p]		
	CREDIT	**DEBIT**	**NET**	**CREDIT**	**DEBIT**	**NET**
CURRENT ACCOUNT (A + B + C)	10 725	12 269	**-1 544**	14 164	14 798	**-634**
A. Goods and services	9 273	10 839	**-1 566**	12 482	13 242	**-760**
a. Goods (export FOB - import FOB)	7 902	9 189	**-1 287**	11 016	11 471	**-455**
b. Services	1 371	1 650	**-279**	1 466	1 771	**-305**
- transport	396	447	**-51**	451	560	**-109**
- tourism - travel	162	244	**-82**	210	283	**-73**
- other services	813	959	**-146**	805	928	**-123**
B. Income	210	622	**-412**	251	854	**-603**
C. Current transfers	1 242	808	**434**	1 431	702	**729**

[r] Revised data; [p] Provisional data;

Source: *National Statistics Institute (INS). FOB imports are calculated based on conversion factor CIF / FOB of 1.0834 determined by the INS.*

The financing of the current account deficit in the first quarter of 2011, was made at a rate of 59.8 percent by non-residents' direct investment in Romania, which recorded 379 million euros[2] (compared with 486 million euros in the first quarter of 2010), of which intra-group loans[3] totalled 290 million euros and capital equity consolidated with the estimated net loss 89 million euros.

Naturally, the question arises as what sources the current account deficit will be financed from, if in the foreseeable future, the balance of the trade balance, of services and revenues continues to be negative, and current transfers diminish. In addition, privatizable state assets will be increasingly less a source of free currency given that most of them are already privatized without noticeable materialisation of the foreign currency brought about in public investments or other goods and services.

Medium and long term external debt was on March 31, 2011, of 74,278 million euro (79.5 percent of total external debt), up by 2.5 percent as compared with December 31, 2010.

Short-term external debt recorded on March 31, 2011, a level of 19,126 million euro (20.5 percent of total external debt), up by 3.7 percent as compared with December 31, 2010, representing a fairly threatening level for Romania's capacity to pay.

[2] Estimative data.
[3] Credits of the foreign investor to the resident firm.

*Table no.1.4. Romania's foreign debt on March 31, 2011 **
and external debt service in the first quarter of 2011

- million euro-

	External debt		External debt service quarter I 2011^{p}
	Balance on 31.12.2010^{r}	Balance on 31.03.2011^{p}	
I. External debt on medium and long-term	**72 471**	**74 278**	**2 238**
1.1. Direct public debt [a)]	16 022	17 129	366
1.2. Publicly guaranteed debt[b)]	1 708	1 637	61
1.3. Publicly non-guaranteed debt	37 431	37 329	1 581
1.4. Medium and long term deposits of non-residents	8 227	8 516	167^{e}
1.5. IMF loans[c)]	9 083	9 667	63
II. Short-term external debt	**18 437**	**19 126**	**8685^{e}**
Total external debt (I + **II)**	**90 908**	**93 404**	**10 923**

**) External debt balance is cash-based (not including accrued interest and not matured), also not including allocations of SDRs by the IMF.*
[a)] external loans contracted directly by PFM (Public Finance Ministry) and by local authorities under the legislation on public debt, including the ones under GEO no.99/2009 on ratification of Stand-By Agreement between Romania and IMF; [b)] external loans guaranteed by the PFM and the local authorities under the legislation on public debt; [c)] loans from the IMF under the Stand-By Arrangement with Romania, excluding the amount received from the IMF under the PFM Ordinance no.99/2009; e- estimated data; p - provisional data; r - revised data.

The ratio of external debt service on medium and long term[4] was 17.9 percent in first quarter 2011, versus 33.3 percent in 2010. The degree of coverage[5] was 8.2 months of imports of goods and services on March 31, 2011, as compared with 8.6 months on December 31, 2010, which shows a downward trend. These external debt sustainability indicators were not considered to be "warning" indicators for Romania's case even though by some standards they still have degrees of "freedom" and "monetary" in the sense of deterioration.

Over-consumption and loss of competitiveness of Romanian economy, have contributed in the last two decades to relatively large and persistent current account deficits and, consequently, a rapid accumulation of gross foreign debt. Factors that contributed mainly to this situation were:
- relatively low structural competitiveness of the Romanian economy as a result of obsolete, less efficient technology and quality competitiveness of Romanian exports,
- increase of unit labour costs in Romania compared to its growth in partner countries, even if it is still relatively low,
- the appreciation of national currency even after Romania's EU accession in 2007,

[4] External debt service ratio on medium and long term is calculated as the ratio between the debt service on medium and long term and the exports of goods and services.
[5] Coverage of reserves in months of imports is calculated as the ratio of official reserves of the NBR (foreign exchange + gold) at end of period to average monthly imports of goods and services in that period.

- allocation of resources predominantly between the "tradable" sector, exporter of goods and services, and the "non-tradable" sector mainly oriented towards domestic consumption.

At the same time, during this period, an adverse impact was brought by the increase in wages and relative prices in the sectors of "non-tradable" goods and public services (public services, services for domestic consumption, construction) as compared to the wages and prices of branches producing exportable goods and services (industry, tourism, transportation etc.). Only a small portion of the loss of competitiveness was due to higher prices and wages in the "tradable" sector, as compared to increases in Romania's partner countries as well as to the nominal appreciation of the euro.

We know that improving competitiveness is a necessary precondition for the export targeted sectors, enabling the creation of new jobs and the recovery of lost positions in order to maintain external debt to a sustainable level and stop the increase in the external deficits.

In the future, trade surpluses are needed so that negative structural developments in the field of income and transfers can be compensated.

The effort to recover lost competitiveness involves three main, interrelated directions:

- reduction of production costs by lowering certain categories of wages and underserved profits;
- increase of productivity and promotion of tradable sectors with high added value, intended for export which require investments in new technologies and equipments;
- reduction of prices and wages in the country, in the "nontradable" goods and services sector, as compared to the "tradable", to motivate firms to invest and produce in this sector.

Chapter 2. Scenarios of the general framework of the sustainability of Romania's public and external debt

Although there is a whole literature dedicated to models and techniques of analysis and forecast of external debt sustainability[6], in this chapter we shall present and analyze scenarios made by IMF experts, in collaboration with Romanian specialists, regarding: the macroeconomic frame and the current policies in 2008-2016 in Romania (Table no.2.1); the sustainability of public sector debt (Table no.2.2); the sustainability of external debt from 2008 to 2010.

An analysis of the impact of the financial and economic crisis in Romania compared to other countries (see Table 2.1 and Annexes 1 - 7) highlights several features of the evolution of Romanian economy during the crisis among which:

- the stronger and longer-term impact of crisis in our country compared to other countries;
- relatively modest economic, financial and social performances, poorer in Romania, compared to developed countries and to some new EU member states;
- a more disadvantaged external position of Romania, compared to other countries, for most of the specific indicators.

[6] Established criteria of debt sustainability (Paris Club on Naples terms), for developing countries, based for example on the following limits:
- rate of present value debt / exports (200-250%);
- rate of debt service ratio / exports (20-25%);
- rate of present value debt / tax revenue (28%);
- the share of exports in GDP (at least 40%);• tax revenue / GDP (20%).

Table no.2.1. Romania: Macroeconomic framework, current policies, 2008/2016

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
GDP and prices (annual percentage change									
Real GDP	**7.3**	**-7.1**	**-1.3**	**1.5**	**4.4**	**4.3**	**4.2**	**4.1**	**4.0**
Real domestic demand	**7.3**	**-12.9**	**-1.0**	**1.2**	**4.3**	**4.5**	**4.4**	**4.2**	**4.1**
GDP deflator	**15.2**	**4.1**	**4.5**	**4.7**	**4.3**	**4.6**	**4.9**	**5.1**	**5.2**
Domestic demand deflator	**14.4**	**4.2**	**3.5**	**4.2**	**4.2**	**4.2**	**4.4**	**4.6**	**4.7**
Consumer price index (average CPI)	**7.9**	**5.6**	**6.1**	**5.4**	**3.4**	**3.0**	**3.0**	**3.0**	**3.0**
Consumer price index (CPI, end of period)	**6.3**	**4.7**	**8.0**	**3.7**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Nominal wages	**23.6**	**8.4**	**2.6**	**4.7**	**6.7**	**6.9**	**7.0**	**8.0**	**8.0**
Real exchange rate based on CPI	**-5.0**	**-7.5**	**1.9**	**-0.2**	**3.3**	**3.0**	**3.2**	**2.5**	**2.6**
Real exchange rate based on GDP deflator	**1.5**	**-8.8**	**0.4**	**-0.9**	**4.1**	**4.5**	**5.1**	**4.8**	**4.9**
Monetary Aggregates (Annual percentage change)									
Broad money	**17.5**	**9.0**	**6.9**	**10.3**	**14.1**	**14.5**	**14.9**	**16.0**	**16.0**
Domestic credit	**33.7**	**0.9**	**4.7**	**7.7**	**8.7**	**10.4**	**10.9**	**11.4**	**11.8**
Savings and investments (in% of GDP)									
Foreign savings	**11.6**	**4.2**	**4.2**	**5.0**	**5.1**	**5.2**	**5.2**	**5.1**	**5.0**
Gross National Saving	**19.7**	**21.1**	**22.2**	**19.5**	**20.1**	**20.8**	**21.5**	**22.0**	**22.7**
Government	**1.5**	**-0.8**	**0.8**	**2.7**	**4.5**	**5.4**	**6.0**	**5.6**	**5.2**
Private	**18.2**	**21.9**	**21.4**	**16.8**	**15.6**	**15.4**	**15.5**	**16.4**	**17.5**
Gross domestic investments	**31.3**	**25.3**	**26.4**	**24.6**	**25.2**	**26.0**	**26.7**	**27.1**	**27.6**
Government	**6.3**	**6.5**	**7.3**	**7.1**	**7.5**	**8.3**	**8.5**	**7.8**	**7.3**
Private	**25.0**	**18.8**	**19.1**	**17.4**	**17.7**	**17.8**	**18.2**	**19.3**	**20.4**
Central Government (in % of GDP)									
Income	**32.2**	**31.4**	**32.8**	**33.3**	**33.7**	**33.5**	**33.2**	**32.4**	**31.7**

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
Tax revenues	**18.4**	**17.8**	**18.1**	**18.9**	**18.9**	**18.7**	**18.6**	**18.5**	**18.5**
Non-fiscal income	**3.1**	**2.9**	**3.9**	**3.5**	**3.6**	**3.4**	**3.4**	**3.4**	**3.4**
Grants	**0.9**	**1.0**	**1.8**	**1.6**	**2.4**	**2.7**	**2.8**	**2.2**	**1.8**
Expenditures	**37.0**	**38.7**	**39.4**	**37.7**	**36.7**	**36.4**	**35.7**	**34.7**	**33.9**
Fiscal balance	**-4.8**	**-7.3**	**-6.5**	**-4.4**	**-3.0**	**-2.9**	**-2.5**	**-2.3**	**-2.1**
Structural fiscal balance [1/]	**-8.5**	**-7.0**	**-4.9**	**-2.4**	**-1.6**	**-2.0**	**-2.0**	**-2.1**	**-2.1**
Gross public debt (direct)	**19.5**	**27.4**	**33.2**	**36.1**	**36.2**	**36.0**	**35.5**	**34.7**	**33.8**
Balance of payments (in % of GDP)									
Current Account	*-11.6*	*-4.2*	*-4.2*	*-5.0*	*-5.1*	*-5.2*	*-5.2*	*-5.1*	*-5.0*
Trade balance	*-13.8*	*-5.8*	*-4.8*	*-5.0*	*-4.7*	*-4.6*	*-4.2*	*-3.7*	*-3.2*
Balance of services	*0.5*	*-0.6*	*-0.6*	*-0.5*	*-0.5*	*-0.5*	*-0.4*	*-0.3*	*-0.2*
Income balance	*-2.7*	*-1.3*	*-1.6*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.5*	*-2.6*
Balance of transfers	*4.3*	*3.5*	*2.8*	*2.8*	*2.3*	*2.1*	*2.0*	*1.8*	*1.7*
Capital and financial account balance	*12.8*	*-1.9*	*1.1*	*5.3*	*8.4*	*8.6*	*8.3*	*5.6*	*6.1*
Balance of direct foreign investments	*6.7*	*3.0*	*2.0*	*2.9*	*2.9*	*2.9*	*3.0*	*3.0*	*3.0*
Gross international reserves (bill. euro)	*28.3*	*30.9*	*36.0*	*40.4*	*43.4*	*44.3*	*45.1*	*44.6*	*47.3*
Gross international reserves (months of imports next year)	*7.8*	*7.4*	*7.8*	*8.0*	*7.8*	*7.2*	*6.7*	*6.1*	*6.1*
International investment position (in % of GDP*)*	*-49.4*	*-62.7*	*-70.8*	*-75.3*	*-72.6*	*-73.0*	*-74.2*	*-72.6*	*-69.5*
External debt (in% of GDP)	*51.4*	*68.3*	*74.5*	*78.9*	*75.4*	*70.4*	*65.5*	*61.1*	*58.4*
Short-term external debt (as% of GDP)	*14.7*	*12.4*	*15.4*	*15.9*	*15.3*	*14.8*	*14.2*	*13.7*	*13.3*
Export volume (percentage change)	*8.3*	*-5.3*	*24.5*	*7.2*	*7.6*	*8.1*	*8.3*	*8.3*	*8.3*
Import volume (percentage	*7.9*	*-20.9*	*9.0*	*6.7*	*7.5*	*8.5*	*8.4*	*8.3*	*8.3*

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
change)									
Terms of trade (percentage change)	*2.8*	*-0.4*	*-1.8*	*-0.7*	*0.6*	*0.4*	*0.7*	*1.1*	*1.1*
Nominal GDP *(in mil. lei)*	*514,700*	*498,008*	*513,641*	*542,035*	*590,247*	*643,816*	*703,827*	*770,546*	*843,680*
Nominal GDP *(in mil. Euro)*	*139,666*	*117,558*	*122,062*	*127,237*	*140,658*	*156,307*	*174.317*	*194.107*	*216.339*

Source: Estimates and projects of the Romanian authorities and the IMF staff.

1/ Real fiscal balance adjusted for the automatic effects of the internal imbalances (output gap) and external imbalances (absorption gap) in the fiscal position.

The analysis of data on the economic and financial indicators in Table 2.1 highlights some **challenging issues** of major significance.

It is that economic growth in Romania has gone from relatively high values in 2008, to sudden and major slumps in 2009 and 2010, the real GDP moving from a growth of 7.3% to decreases of -7.1% and, respectively,-1.3% for 2011, the forecast having been 1.5%.

These large and sudden changes in amplitude indicators show a case of strong shock that Romania went through, with severe enough consequences on short, medium and long term.

From these shock cases we should draw lessons in the sense that the way economic decline occurs is important as well and one must always be prepared. Statements of decision makers in Romania in September 2008, that the international financial crisis **"will not have direct effects"** on the Romanian economy, showed how far they were from the truth:

- Projections for the years 2012-2016 show rather relatively equal annual developments, which of course is only a desirable perception of quite variable future developments;
- External debt as weight in GDP increased from 51.4% in 2008 to 78.9% in 2011, and in the next four years until 2016 it should stay at a high level, although with a downward trend, without reaching the level of 2008, which means that the decline triggered by the crisis, in some cases, will not have been recovered even by 2016;
- Inflation is at relatively high rates in 2008-2010 and then stays quasi-constant at an annual level of 3% which by far cannot be considered as a convenient (comfortable) one;
- The ICOR (incremental capital - output ratio) shows a decrease of expected economic performance and efficiency which is contrary to the sustainability of external debt and the ability to meet external debt service. Added to this is the continuation of chronicization of the deficits of the trade, services and income balances, during 2011-2016;
- The gross international reserves are expected to increase to 47.3 billion euros as compared to 36 billion euros in 2010. The sources of growth of such reserves if they consist of new borrowings are not a factor of the strengthening of sustainability.

Table no.2.2 Romania: The sustainability of public sector debt (in % of GDP, unless otherwise specified)

	Current					Projections						Primary balance that stabilizes the debt
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Public sector debt	15.4	17.5	19.5	27.4	33.2	**36.1**	**36.2**	**36.0**	**35.5**	**34.7**	**33.8**	**-1.4**
o / w foreign currency denominated	7.1	6.6	6.4	15.0	20.4	24.0	21.9	18.4	15.0	11.7	10.0	
Percentage change of public sector debt	-0.3	2.1	2.0	7.9	5.7	2.9	0.0	-0.1	-0.6	-0.8	-0.9	
Flows identified as debt generators (4 +7 +12)	-3.0	-0.1	2.7	7.9	7.8	2.4	0.0	-0.1	-0.6	-0.8	-0.9	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.2	0.8	0.6	0.4	
Revenues and grants	32.3	32.3	32.2	31.4	32.8	33.3	33.7	33.5	33.2	32.4	31.7	
Primary expenditure	32.9	34.6	36.3	37.5	38.0	35.9	35.0	34.7	34.0	33.0	32.2	
Automatic debt dynamics	-3.1	-2.3	-1.3	1.8	2.7	-0.2	-1.3	-1.3	-1.4	-1.4	-1.3	
Rate debt / income in public sector	47.6	54.2	60.7	87.4	101.0	108.6	107.3	107.7	106.9	107.0	106.4	
Gross financing need(in%)	1.8	3.9	6.3	8.4	7.2	5.4	4.7	9.1	8.1	5.6	5.0	
in bill. U.S.D.	2.2	6.7	12.8	13.8	11.6	9.0	8.7	18.5	18.2	14.0	13.6	
Scenario with key variables at their historical averages						**36.1**	**34.2**	**32.5**	**31.0**	**29.6**	**28.4**	
No policy change scenario (constant primary balance) in 2011-2016						**36.1**	**37.5**	**38.8**	**39.9**	**41.0**	**42.1**	
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percents)	7.9	6.3	7.3	-7.1	-1.3	1.5	4.4	4.2	4.2	4.1	4.0	
The nominal interest average rate for public debt (in percents)	6.1	5.8	5.2	6.0	5.3	5.5	5.1	5.1	5.0	5.2	5.3	
The real interest average rate (nominal rate minus the change in the GDP deflator, in percents)	-4.5	-7.7	-10.1	1.9	0.8	0.8	0.9	0.5	0.1	0.1	0.0	
Nominal appreciation (increase in U.S.D. value of local currency in percents)	19.4	6.5	-16.5	0.3	-10.7							
Inflation rate (GDP deflator, in percents)	10.6	13.5	15.2	4.1	4.5	4.8	4.3	4.6	4.9	5.2	5.2	
Growth of real primary expenditures (deflated by GDP deflator, in percents)	14.8	12.0	12.4	-3.9	-0.1	-4.5	1.8	3.3	2.2	1.0	1.5	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.2	0.8	0.6	0.4	

Source: IMF

Table 2.2 shows that the weight of **public debt in GDP that increased** from 15.4% in 2006 to 33.2% in 2011, will increase up to 36.2% in 2013, then coming back to 33,8% in 2016. Similarly will the need of gross financing increase which also is not a favourable tendency either.

The nominal interest average rate on public debt will stay at over 5%, which will strike the debt burden and the possibilities of reducing it.

The inflation rate is not closer to its level in other EU countries either, which means slow evolution of nominal convergence. But what draws particular attention is the rate debt/income that shows an increasing trend during 2010-2013, which means poor performance of the economic policy mix.

Table no.2.3. Romania: the framework of the sustainability of external debt, 2006-2016 (in percents of GDP, unless otherwise specified)

	Current					**Projections**						**Current account without interests that stabilize the debt**
	2006	2007	2008	2009	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	
External debt	42.1	47.0	51.4	68.3	74.5	**78.9**	**75.4**	**70.4**	**65.5**	**61.1**	**68.3**	**-7,2**
Changes in external debt	3.3	4.9	4.4	16.9	6.2	4.4	-3.5	-5.0	-4.9	-4.4	-2.7	
Identified external debt generating flows	-5.4	-1.4	0.5	10.4	-0.4	-0.5	-2.2	-2.3	-1.9	0.2	0.2	
Current account deficit, excl. Interest payments	9.2	12.2	10.1	2.4	1.8	2.7	. 3.0	3.3	3.4	3.6	3.6	
Deficit in goods and services balance	12.0	14.0	13.2	6.1	5.5	5.7	5.3	5.2	4.8	4.2	3.7	
Export	32.1	29.2	30.4	30.7	36.0	37.8	37.7	37.6	37.4	37.2	37.0	
Import	44.2	43.2	43.6	36.8	41.4	43.5	43.0	42.7	42.1	41,4	40.7	
Capital inflows that do not generate debt (negative)	-8.6	-5.B	-6.1	-3.4	-2.6	-4.4	-4.2	-4.7	-4.4	-2.5	-2.6	
Automatic debt dynamics	-6.0	-7.6	-3.6	11.4	0.4	1.2	-1.0	-0.9	-0.9	-0.9	-0.8	
The contribution of nominal interest rate	1.2	1.2	1.5	1.8	2.5	2.3	2.1	2.0	1.8	1.5	1.4	
Contribution of real GDP growth	-2.5	-2.1	-3.1	4.3	0.8	**-1.1**	-3.1	-2.9	-2.7	-2.4	-2.2	
Contribution of price and exchange rate changes	-4.7	-7.0	-2.0	5.3	-2.9							
Residues, including gross foreign assets change	8.8	6.3	4.0	6.5	6.5	4.5	-1.4	-2.6	-2.9	-4.6	-2.9	
External debt ratio of exports (in percents)	131.0	160.7	169.0	222.2	207.1	208.6	199.6	187.3	175.3	164.1	157.5	
Gross external financing need (bill.euro)	21.7	35.9	46.2	34.9	32.5	34.4	40.2	49,8	52.1	51.8	53.9	
In percentage of GDP	22.2	28.8	33.1	29.7	26.6	26.9	28.4	31.6	29.7	26.5	24.8	
Scenario with key variables at their historical averages						**78.9**	**77.0**	**74.1**	**71.2**	**66.4**	**63.4**	
Key macroeconomic assumptions												
Real GDP growth (in percents)	7.9	6.3	7.3	-7.1	-1.2	1.5	4.4	4.3	4.2	4.1	4.0	
GDP deflator in euros (percentage changes)	13.8	19.8	4.4	-9.4	4.4	3.4	5.9	6.6	7.0	6.9	7.1	
Nominal interest rate (in percents)	3.8	3.7	3.6	2.9	3.7	3.3	3.0	2.9	2.8	2.6	2.5	
Export growth (euro in percents)	19.3	15.9	16.6	-14.9	20.6	10.3	10.4	10.6	10.9	10.9	10.9	
Imports growth (euro in percents)	25.2	24.7	13.2	-28.9	15.9	10.2	9.4	10.4	10.0	9.5	9.5	
Current account balance, excluding interest payments	-9.2	-12.2	-10.1	-2.4	-1.8	-2.7	-3.0	-3.3	-3.4	-3.6	-3.6	
Net capital inflows that do not generate debt	8.6	5.8	6.1	3.4	2.6	4.4	4.2	4,7	4.4	2.5	2.6	

Source: IMF

The analysis of external debt indicators (Table no.2.3) highlights several issues challenging the level of sustainability and its impact factors, namely:

- ratio of external debt to GDP has increased by 2011 then following decreases, weaker at first, then more consistent, stabilising at relatively high levels, especially if we consider Romania's ability to pay;
- the rate external debt / exports increases, resulting in a relatively weak capacity of export to be a source of external debt disbursement.

Chapter 3. External debt vulnerabilities

As previously mentioned, a country's external debt is not only a chance for potential beneficial effects, favourable and unfavourable as well, if the management and the administration are not effective and do not take into account risks, vulnerabilities, weaknesses, especially regarding medium and long terms and conditions of repayment and provision of sources of funding.

According to our calculations (G. Georgescu and Gheorghe Zaman) in 2009, Romania's external debt sustainability indicators, on medium and long term, showed a trend of **deterioration compared to previous years** (Table no.3.1.) versus limit criteria conventionally stipulated in the literature and international financial practice.

Table no.3.1. Romania's external debt sustainability indicators, on medium and long term, between 2000 and 2009

%

Indicators	2000	2006	2007	2008	2009	Maximum limit
External debt / GDP	23,9	29,2	31,1	37,9	56,0	50,0
External debt / Export	72,7	91,2	105,5	122,0	181,9	150,0
External debt / Foreign exchange incomes	65,3	73,9	83,5	97,0	149,5	100,0
Foreign exchange reserves / External debt	54,2	80,0	70,6	54,6	47,2	50,0*
External debt service / Foreign exchange incomes	15,0	15,8	16,3	22,7	26,0	20,0
External debt service / Exports	16,7	19,4	20,5	28,5	31,7	30,0
External debt service / Foreign exchange reserves	42,3	26,6	27,6	42,8	36,9	40,0
Foreign exchange reserves / GDP	12,9	23,4	22,0	20,7	26,4	25,0*

* *minimum threshold*

Source: *Own calculations based on data from NBR and from the National Commission for Prognosis.*

Moreover, for a series of indicators of external debt sustainability, Romania exceeded "fault rates" in 2009, which lowers its country rating and hinders its access to international capital markets.

Although the IMF, by the recipes it recommends to countries that resort to foreign loans, focuses highly on fiscal and monetary policies, the specialists, for example prof. Calvo G., emphasize that these policies have not proved effective, requiring complementary actions of structural policies that should help reducing the external financial vulnerabilities, especially in economies suffering from high incidence of bank loans in freely convertible currencies. For this reason, and also because of the effects of the crisis, proposals have been made to **create an emerging markets fund,** as the IMF is the "lender of last resort", which ought to have lent to emerging economies under specific conditions and more conveniently so they can cope with external shocks, with the probability of sudden stop of loans and with the price volatility of the capital inflows.

IMF believes that the emerging European economies during crisis saw large external imbalances, the causes varying from one country to another. However, some similarities can be specified, namely: strong capital flows in the non-tradable sector[7] that registered a huge increase in price and wage, which eroded competitiveness as capital flows boosted mostly the offer (supply) and the imports rather than the exports, and these contributed to major changes and, ultimately, non-sustainability of the positions of net foreign assets.

Financial integration has played a critical role allowing the funding of the imbalances while the lack of institutions and the lack of the "national" approaches to resolve the crisis have prevented the private sector and the markets from playing a bigger role.

With the banking problems being tackled and solved at national level, the problems of banks and of sovereign debt in the euro area peripheral countries amplified each other. As the financial costs in the private sector depended to a growing extent on the national origin of the borrower, the financial integration was "disintegrated" acting in directions opposite from its objectives.

The re-launching of long-term economic growth is the key issue in Romania. The growth and the convergence cannot be restored to their normal trajectories unless by increasing productivity, with which Romania fought hard but unsuccessfully, in the past two decades, even if it had a relatively large access to foreign capital. To enhance efficiency, we need better policies at national level, along with more effective governance at EU level that could strengthen these policies. Special attention should be given to the supervising of the financial system and to the economic integration due to their vulnerability.

Multi-speed post-crisis reconstruction is underway with some emerging economies going at a higher tempo, and others, on the contrary, still fighting out of the crisis.

The economic science and practices, following the recent crisis, were again alerted to the possibility to predict and take preventive measures against the crisis effects by means of **early warning** that could prevent or determine better training to cope with the crises and maintain the external debt sustainability and the economic development. This, especially since the **economic science is accused** to have been unable to predict precisely in "space and time" the economic crisis occurrence. The charges could be also brought to seismology and other sciences of earth physics which do not foresee the time and place of natural disasters.

Overview of literature on indicators for early warning, sudden stops and changes of current account:

[7] Sector "nontradable" means those goods and services produced and consumed in the country.

Authors	Main messages
Milesi Ferretti and Razin (1998)	The weak reserves and the trade ratio (terms of trade), unfavourable, may trigger changes in the current account and currency crises
Kaminsky, Lizondo and Reinhart (1998)	Some indicators can announce the possibilities of currency crises. Early warning indicators include current account deficit, over-evaluation, weak growth in exports, reserves to the "broad money"
Berg, Borensztein, Milesi-Ferretti, Pattillo (1999)	Reserves / short-term debt are also early warning indicators of currency crises. Added to these we find the current account deficit, loss of reserves, weak exports and other early warning indicators.
Frenkel and Calvo (2004)	The probability of sudden stop of foreign capital increases the size of the current account initial deficit as a percentage of GDP and decreases with country's openness.
Edwards (2005)	The current account deficit is the key indicator for the crisis.
Mendoza and Terrones	All crises in emerging economies have been associated with the "boom" of loans, although not all credit booms end in crisis.

The vulnerabilities generated by the under-performant management of external debt, in the countries most affected by the current crisis in the EU (Greece, Ireland, Portugal, Spain, Romania), can be analyzed in terms of **fiscal, financial and structural measures**, which, in various proportions present similarities, due to the unique source of recipes and advice which is the International Monetary Fund.

We will refer to some of the possible **vulnerabilities** of the measures taken in Romania for getting over the economic crisis, especially in terms of long-term effects.

- The fiscal policies in Romania, to increase VAT from 19 to 24% and increase other taxes, could un-stimulate, on long term, by increasing prices, the demand and hence the supply, especially in the tradable sector which represents the overwhelming part of private economic agents. On the other hand, taxation of prizes and vouchers can act in the same direction, so additional budget revenues expected might be far outweighed by the negative externalities they generate into the real economy,

- The financial-monetary policies of growth of the level of prudentiality, supervision, transparency and improvement of the way of reporting, while, maintaining high interest rates for credits on short, medium and long term, they cannot achieve the expected goals of recovery and economic efficiency,

- The structural policies related to reducing employment and wages in public administration, education, research, health etc. also have an adverse effect on the sustainable economic growth and on the opportunities to create funds necessary to finance maturing debt.

Chapter 4. Strategic ways of approaching the external debt sustainability

Public and private external debt is one of the most powerful economic policy tools that can be used effectively to stimulate economic growth but which, if inefficiently used, can cause serious damage to national economies on short, medium and long term.

Governments can contract debts to finance new investments in human or material capital, to outline the country's resources to counteract recessions or to meet the financing needs resulting from exceptional circumstances such as natural disasters or financial crises.

The external debt can create a burden for future generations, as well as a number of vulnerabilities for the investment process and inflation, the resistance to crisis and recession of a country.

Even before the classics of political economy, A. Smith and D. Ricardo, the problem of external debt was a concern of primary importance for economic science, given the potentials that it has, both positive and negative, for countries that receive and grant loans.

Usually, governments borrow on domestic or external market to finance projects of long term development that are targeted to physical infrastructure (roads, bridges, hydroelectric plants etc.). or investment inclusively in the human capital.

Governments may decide to borrow in order to maintain the level of current expenditures without increasing taxes in times of crisis and recession or to finance the costs caused by natural disasters (earthquakes, floods, droughts), wars etc.

On the other hand, states resort to loans to **help the start of the economic growth** at higher rates so as to ensure a higher consumption for the population, redistributing resources from future generations to the present ones.

According to the opinions in the literature, the behaviour of policy makers has a strong **penchant for short and medium term,** i.e. for how long a term of office usually lasts. Regarding indebtedness, issues concerning debt repayment, after this period, interest them less or not at all. Not to say it publicly, many probably think in the sense of □aprés □oi □e d□u□e□□

The external indebtedness of countries with economies in transition has shown in over two decades of emergence of competitive market economy, that high levels of debt can bring a series of serious constraints on the behaviour of an independent monetary policy, especially when the debt is in hard currency and a monetary policy of accommodation can lead to devaluation of national currency and substantial negative effects (Calvo and Reinhat, 2002).

The set of recommendations (conditionalities accepted by governments) on the monetary and fiscal policies of different IMF stand-by arrangements and other international financial institutions also comprises a component aimed, more or less relevantly, at the need to promote real economy restructuring policies supporting sustainable development of the country borrowing. In this respect, we wish to present a viewpoint about the need for new approaches of the relationship between the sectors of industry and services in Romania, considering their role in the process of economic growth and the features of "tradable" / "exportable" and "non-tradable" goods and services.

The problems of specialization and of domestic and international economic cooperation, of the value chains revolve around the strategic approach of cross-conditioning and inter-empowering of the **relations between economic sectors (primary, secondary, tertiary, and quaternary**), avoiding, for example, trap pseudo-tertialization that many transitional economies entered into, exaggerating the role of the development of services predominantly speculative, particularly financial ones.

More and more experts in developing countries consider that reducing the weight of manufacturing industry in GDP is a "worrying" phenomenon. In a report[8] by Michael Spence and Sandile Hatshwayo, submitted to the Council on Foreign Relations in New York, it is argued, based on advanced statistical and economic analyses, that "the American economy must find ways to develop employment in **the "tradable" sector** containing industries whose products are sold abroad." This sector, although comprises services, including financial ones **is dominated by manufacturing** industries, which in literature is called "secondary" sector. Getting over the recession and the current economic and financial crisis in most

[8] "The Evolving Structure of the American Economy and the Employment Challenge" by Michael Spence and Sandile Hatshwayo, Council of Foreign Relations, Working Paper, March 2011.

countries, including Romania, takes place, according to the opinion of several specialists, at the expense of the manufacturing sector, which show greater resistance to the shocks of the business cycles and the crises, compared with other sectors of the national economy, more volatile and vulnerable.

Both in absolute and relative terms (as weight in employment) the "tradable" sector in Romania has declined dramatically in the two decades. The creation of new jobs has been promoted especially in the services sector so as we could follow the increasing trend of this weight manifested in developed economies, notwithstanding that in these countries the process was lengthy, without forcing, but with sectorial complementarities of efficiencies at the macroeconomic level.

In developed countries, in absolute terms, manufacturing industry grew more slowly than services in the last two decades, which meant a reduction in relative weight. A major strategic management error in Romania was discouraging Romanian manufacturing industry, considered the result of inefficient socialist industrialization by decision makers, less or not at all savvy, who relied on the advantages of producing companies from abroad who also had the interest to expand their markets in the emerging Europe countries. Giving up the vast majority of manufacturing industries in Romania and replacing them with imported products, under the pretext that they are better, more functional, better presented and packed and at a lower cost is, at first sight, a "beneficial" measure of rinsing the national economic of ineffective activities. Finally, it turned out to be counterproductive, because the **most important branches generating and propagating technologic progress** are in this sector as the most fertile and strong domain for R&D and technology transfer. As for the advantages the imported products have compared to local products, perhaps only partially (!) they were valid, but the negative costs are neglected (negative externalities), costs that they have produced in the entire national economy by increasing underemployment, destruction of man-made capital, export of scrap iron and negative impact on natural capital. If all these negative effects, at the macroeconomic societal level, are added with a minus to the benefits and the superiority of imported products in Romania, we shall conclude, not very favourably, that there is a "destruction" of manufacturing industry (deindustrialization), in favour of services industry which, if not strictly regulated by clear legal institutional basis, may largely encourage speculation, polluting consumerism, inflation, weak, unsustainable economic development, as happened in 2009-2010.

Table no.4.1 Structure in percents of employed population, on the main activities of national economy in the period 1993-2009

-% -

	1993	**2003**	**2005**	**2008**	**2009**
Agriculture, hunting and forestry	35,2	34,7	31,9	27,5	28,7
Fishing and pisciculture	0,1	0,1	0,1	0,1	0,1
Industry	30,1	24,8	23,2	29,1	21,1
Constructions	4,8	4,8	6,1	7,8	7,4
Services	10,9	35,7	41,0	42,7	42,8

Source: *Romania's Statistical Yearbook 1999, p.81 and 2010, p.91*

Data in the table no.4.1 show an overly large increase of the weight of services in total employment (about +31 percentage points) at the expense of industry (-9 pp) and agriculture (-6.5 pp) where a significant growth potential remains unvalued.

Table no.4.2. Contributions (%) to GDP growth on categories of resources in 2004 and 2009

	2004	2009
Total GDP	8,5	-7,1
Agriculture	2,2	-1,0
Industry	1,9	-0,3
Constructions	0,5	-1,4
Services	3,0	-3,0
Net taxes	0,9	-1,4

Source: *Romania's Statistical Yearbook 2010, p.322*

The structure of GDP growth contribution on categories of resources (Table no.4.2) shows, for example, that in the first year of financial crisis in Romania, the services sector had the largest contribution (42.2%) to the GDP's decline, which outlines their sensitivity and vulnerability, followed by construction sector whose unhealthy and unsustainable growth in 2008 reached exaggerated levels (+33% compared to 2007). Following a policy of promoting the services, especially those of speculative inflationist brokerage, the investment policy saw a structure that clearly disadvantaged the industry and the agriculture (Table no.4.3). Thus, the volume of investment in industry as a percentage of total investments decreased by -15.6 percentage points in the period 1993-2009, and in agriculture by -3 pp.

Table no.4.3. Structure in percents of net investments, on main activities of the national economy during 1993-2009

	1993	2003	2005	2008	2009
Agriculture	6,9	5,9	2,8	3,4	3,9
Industry	49,9	37,6	33,0	31,8	34,3
Constructions	0,2	9,6	9,6	10,9	12,2
Services		46,9	50,3	53,9	49,6

Source: *Romania's Statistical Yearbook 1999, 2010, p.357.*

It is noted that in 2009, it is the very investment in services that showed the largest percentage decline (- 4.3 pp), which highlights the sector's vulnerability to the crisis shocks and its inability to redress without the real support of manufacturing industries, mining and agriculture.

Table no.4.4 Structure in percents of the sources of investment financing

-% -

	2003	2008	2009
Own sources	68,7	73,0	68,1
Domestic credit	9,2	9,7	7,4
Foreign loans	8,4	3,6	5,3
State and local budget	6,9	8,2	8,8
Foreign capital	0,4	0,6	1,8
Other sources	6,4	4,9	8,6

Source: *Romania's Statistical Yearbook, p.357*

One of the most important problems of Romania's getting over the crisis and entering the way to sustainable development is represented by the sources of financing the investments.

The data in the table no.4.4 reveal the following:
- the largest share is held by the own sources of the economic agents, weighing more than 68%, which actually highlights the fundamental role of the own effort of the economy to get out of the crisis, and to which the other sources of funding can complementarily be added more or less;
- internal loans have between 7 and 9% of total investment funding, which is a very modest weight, showing that the banks' role in stimulating investments is still weak, among others due to the high interest rates and the reluctance that they have for medium and long term loans in times of economic turbulence;
- investment financing from public sources has increased in weight in the crisis year 2009 which shows exactly the role that state can have in stimulating investments as a factor of growth;
- foreign capital in the period 2003-2009 had a very small weight in investment financing, which is why an exaggeration of their role in the sustainable growth is not very beneficial;
- other sources of investment financing refer to foreign loans and grants from EU structural and cohesion funds that are still insufficiently accessed.

Table no.4.5 Structure in percents of GDP, on categories of resources, in the years 1999, 2004, 2005 and 2009

- % -

	1999	2004	2005	2009
Agriculture, forestry and fishing	11,1	12,5	8,4	7,1
Industry	27,3	24,9	24,8	27,8
Constructions	4,9	5,9	6,5	11,0
Services	56,7	56,7	60,3	54,1

Source: *Data of the National Institute of Statistics. Own calculations, Romania's Statistical Yearbook 2005, p.415*

In the crisis year 2009, the weight of services and constructions in total GDP on categories of resources decreased by -6.2 pp and, respectively, -4.5 pp, as compared to 2005, highlighting their weak resistance and sustainability to the crisis shocks.

Table no.4.6 Contribution (%) to GDP growth on categories of usages in 2004, 2005 and 2009

	2004	2005	2009
GDP	8,5	4,2	-7,1
Household final consumption	9,8	7,4	-6,5
Government's final consumption	-1,0	0,2	0,1
Fixed capital gross formation	+2,4	3,4	-8,1
Net Export	-4,4	-4,5	7,5
Changes in inventories	1,7	-2,3	-0,1

Source: *Data of the National Institute of Statistics. Own calculations, Romania's Statistical Yearbook 2005.*

The data in Table no.4.6 emphasize that in the crisis year 2009, the **net export, created in the "tradable" sector (Manufacturing) was the only one who contributed positively to GDP** growth, the fixed capital gross formation and the individual consumption having a negative impact.

The dramatic decrease in the number of employees in the manufacturing industry in Romania is a negative phenomenon which did not contribute at all to the development of the country but it rather increased its vulnerability and dependence, internally and externally. We need a radical change in the strategic management of sustainable growth of manufacturing industries, especially with when a **new reindustrialization of** Romanian economy is more often discussed. The increase in the weight of financial and business insurance services is only a "favourable" appearance that could not compensate for the long-term effects and the job losses in manufacturing industry.

These changes on the labour market, keeping their proportions and features, are found in developed countries as well and suggest the influence of several common factors including, in the top, the technological change and globalization that allow specialization on certain goods and products but on different stages of production process. The links of the chain with the lowest added value are transferred in less developed countries or in the developing countries, where labour force is cheaper and the better paid jobs remain in the developed countries. If in America manufacturing industry declined and wages were lower, in commercial services, where America has a comparative advantage, both value added and employment increased. The same happened to **non-tradable** services which, by definition, remain where consumption occurs. The demand for non-tradable goods in the future may not continue to grow at the same pace as so far, considering the effects of the economic and financial crisis. Health, commerce and government services decreased. Therefore, government will have to focus on technologies that could serve to develop the "tradable" sector (of goods and services exported).

The economic structural evolution has its own strategic importance and may be affected in different effective ways, so that nowadays there appears as increasingly necessary **strategy of reindustrialization of** transitional economies, after the shock **deindustrialization** produced during 1990-2010. In this context, we can mention that Romania follows an unfavourable trend, as compared to the global trends, in terms of the drastic reduction of CDI staff and of the investment and expenditure in the sector considered, along with industry and agriculture as factors of **sustainable, smart and inclusive development** (UE Strategy 2020).

There still are many uncertainties about how to implement such a strategy which does not mean that we will not have to deal with both theoretical and pragmatic terms. Many specialists would question an industrial policy that promotes manufacturing industry as a first priority.

As long as a low demand keeps the interest rates and the dollar at a low level, the tradable sector is likely to grow without the need for action (impulse) from the state. America remains the world's largest manufacturing producer. Japan and America have doubled the manufacturing production output in the period 1980-2009, and, in absolute terms, the manufacturing production output did not decline in any of the G7 country in this period.

The manufacturing industry with low added value focused in China, where labour is cheap, but it is not clear whether this structure of comparative advantage will last long. However, China has not neglected the sustainable growth of manufacturing industry especially of branches with high added value, science-intensive, using in a first phase the massive promotion of technological transfer and assimilation of the mass of products and equipment, followed by a phase of improvement in products and services acquired and, more importantly, a phase of business creativity and innovation.

Jagdish Bhagwati, professor of Columbia University, believes that those who favour stimulation of the manufacturing industry in the rich world suffer from the so-called "fetish" of processors (manufacturing fetish).

According to Bhagwati, the fascination for manufacturing industry is based on the erroneous belief that it is more dynamic in terms of technology than the services. In the services there take place sensitive dynamic of technological progress as well, such as: logistics companies, large wholesalers, mobile telecommunications, innovation in non-financial services, genetically modified seeds in agriculture. However it is worth mentioning that these services are driven, in the final analysis, by the manufacturing sector which they serve as producers of "tradable" goods. The wholesale and the retail have benefited from huge benefits in recent decades, as a result of ICT development, whose material base can be found in manufacturing industry.

Bhagwati also considers as wrong the second assumption of "fetishists", that manufacturing is more important for creating jobs than services. Changing the structure of production for manufacturing industries does not increase the number of jobs. The increasing demand for "non-tradable" services occurs just as strong as in the years before the crisis, Bhagwati says, although there are no solid arguments in this regard.

On the other hand, it is unclear whether the demand for "tradable" services will decrease or not. As emerging economies become more developed, they will want to benefit in larger quantities, from all sorts of services, including the most sophisticated, to which the U.S. and Britain have comparative advantages. Those inclining towards the development of manufacturing industry on the grounds that it would be better to stimulate exports, often ignore the fact that an increased volume of services becomes exportable (traded), and that rich countries tend to export more than import such services. America and England have a surplus of trade balance in such services. Rich countries face obstacles in the capitalization of power (their economic supremacy in this field). However, the trade in services remains, from far, relatively restricted, not only in emerging economies. Mario Monti from Bocconi University in Milan found that only 20% of services in EU have a cross-border component and that the efforts to liberalize services can bring more benefits than the exhortations to stimulate manufacturing industries.

In this part of the communication I wanted to bring forward a major problem that the strategic management at the macroeconomic level currently faces, in terms of sustainable development policies, sectoral and sub-sectoral, as a result of the de-industrialization phenomenon at a national level in countries with economies in transition and of the defragmentation of processing industries under the impact of the globalization processes and the deepening of domestic and international specialization and cooperation in the production of goods and services that imply new requirements for the management of sustainable development in conditions of extensive business networks (business networking) whose hard core is represented by the multi and trans-national corporations.

The conceptual and strategic reconsidering of the promotion of sustainable and competitive economic structure in Romania is a prerequisite for addressing external debt sustainability that requires, complementarily, an optimal solution of other issues as well:

- the ratio between domestic and foreign debt on short, medium and long term;
- a correlation, in time, of the increased debt with the repayment capacity, in order to avoid insolvency;
- better negotiation of conditions for bilateral and multilateral lending;
- correlation of real economy with the nominal, as to ensure the primacy of the former and the latter’s role as an important factor of influence, knowing that what remains finally is only the anthropic, socio-human capital, together with the natural one, beyond the ephemerality of the monetary financial processes;

- making the policy makers accountable for the identifying sources of external debt repayment, beyond their term of office.

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Annex 1

Real GDP growth and CPI inflation (%) in European countries

	Real GDP growth				Average CPI inflation			
	2009	2010	2011	2012	2009	2010	2011	2012
Europe[1]	**-4.5**	**2.4**	**2.4**	**2.6**	**2.7**	**3.0**	**3.8**	**3.0**
Countries with developed economy[1]	**-4.0**	**1.7**	**1.7**	**1.9**	**0.7**	**1.9**	**2.5**	**1.8**
Emerging economies	**-5.9**	**4.2**	**4.3**	**4.3**	**8.5**	**6.3**	**7.3**	**6.2**
European Union [1]	**-4.1**	**1.8**	**1.8**	**2.1**	**0.9**	**2.0**	**2.7**	**1.9**
Euro area	**-4.1**	**1.7**	**1.6**	**1.8**	**0.3**	**1.6**	**2.3**	**1.7**
Austria	**-3.9**	**2.0**	**2.4**	**2.3**	**0.4**	**1.7**	**2.5**	**2.0**
Belgium	**-2.7**	**2.0**	**1.7**	**1.9**	**0.0**	**2.3**	**2.9**	**2.3**
Cyprus	**-1.7**	**1.0**	**1.7**	**2.2**	**0.2**	**2.6**	**3.9**	**2.8**
Estonia	**-13.9**	**3.1**	**3.3**	**3.7**	**-0.1**	**2.9**	**4.7**	**2.1**
Finland	**-8.2**	**3.1**	**3.1**	**2.5**	**1.6**	**1.7**	**3.0**	**2.1**
France	**-2.5**	**1.5**	**1.6**	**1.8**	**0.1**	**1.7**	**2.1**	**1.7**
Germany	**-4.7**	**3.5**	**2.5**	**2.1**	**0.2**	**1.2**	**2.2**	**1.5**
Greece	**-2.0**	**-4.5**	**-3.0**	**1.1**	**1.4**	**4.7**	**2.5**	**0.5**
Ireland	**-7.6**	**-1.0**	**0.5**	**1.9**	**-1.7**	**-1.6**	**0.5**	**0.5**
Italy	**-5.2**	**1.3**	**1.1**	**1.3**	**0.8**	**1.6**	**2.0**	**2.1**
Luxemburg	**-3.7**	**3.4**	**3.0**	**3.1**	**0.4**	**2.3**	**3.5**	**1.7**
Malta	**-3.4**	**3.6**	**2.5**	**2.2**	**1.8**	**2.0**	**3.0**	**2.6**
Nederland	**-3.9**	**1.7**	**1.5**	**1.5**	**1.0**	**0.9**	**2.3**	**2.2**
Portugal	**-2.5**	**1.4**	**-1.5**	**-0.5**	**-0.9**	**1.4**	**2.4**	**1.4**
Slovakia	**-4.8**	**4.0**	**3.8**	**4.2**	**0.9**	**0.7**	**3.4**	**2.7**
Slovenia	**-8.1**	**1.2**	**2.0**	**2.4**	**0.9**	**1.8**	**2.2**	**3.1**
Spain	**-3.7**	**-0.1**	**0.8**	**1.6**	**-0.2**	**2.0**	**2.6**	**1.5**
Other EU countries with advanced economies								
Czech Republic	**-4.1**	**2.3**	**1.7**	**2.9**	**1.0**	**1.5**	**2.0**	**2.0**
Denmark	**-5.2**	**2.1**	**2.0**	**2.0**	**1.3**	**2.3**	**2.0**	**2.0**
Sweden	**-5.3**	**5.5**	**3.8**	**3.5**	**2.0**	**1.9**	**2.0**	**2.0**
England	**-4.9**	**1.3**	**1.7**	**2.3**	**2.1**	**3.3**	**4.2**	**2.0**
Emerging EU economies								
Bulgaria	**-5.5**	**0.2**	**3.0**	**3.5**	**2.5**	**3.0**	**4.8**	**3.7**
Hungary	**-6.7**	**1.2**	**2.8**	**2.8**	**4.2**	**4.9**	**4.1**	**3.5**
Latvia	**-18.0**	**-0.3**	**3.3**	**4.0**	**3.3**	**-1.2**	**3.0**	**1.7**
Lithuania	**-14.7**	**1.3**	**4.6**	**3.8**	**4.4**	**1.2**	**3.1**	**2.9**
Poland	**1.7**	**3.8**	**3.8**	**3.6**	**3.5**	**2.6**	**4.1**	**2.9**
Romania	**-7.1**	**-1.3**	**1.5**	**4.4**	**5.6**	**6.1**	**6.1**	**3.4**
Non-EU advanced economies								
Iceland	**-6.9**	**-3.5**	**2.3**	**2.9**	**12.0**	**5.4**	**2.6**	**2.6**
Israel	**0.8**	**4.6**	**3.8**	**3.8**	**3.3**	**2.7**	**3.0**	**2.5**
Norway	**-1.4**	**0.4**	**2.9**	**2.5**	**2.2**	**2.4**	**1.8**	**2.2**
Switzerland	**-1.9**	**2.6**	**2.4**	**1.8**	**-0.5**	**0.7**	**0.9**	**1.0**
Other emerging economies								

	Real GDP growth				Average CPI inflation			
	2009	2010	2011	2012	2009	2010	2011	2012
Albania	3.3	3.5	3.4	3.6	2.2	3.6	4.5	3.5
Belarus	0.2	7.6	6.8	4.8	13.0	7.7	12.9	9.7
Bosnia and Herzegovina	-3.1	0.8	2.2	4.0	-0.4	2.1	5.0	2.5
Croatia	-5.8	-1.4	1.3	1.8	2.4	1.0	3.5	2.4
Macedonia	-0.9	0.7	3.0	3.7	-0.8	1.5	5.2	2.0
Moldova	-6.0	6.9	4.5	4.8	0.0	7.4	7.5	6.3
Montenegro	-5.7	1.1	2.0	3.5	3.4	0.5	3.1	2.0
Russia	-7.8	4.0	4.8	4.5	11.7	6.9	9.3	8.0
Serbia	-3.1	1.8	3.0	5.0	8.1	6.2	9.9	4.1
Turkey	-4.7	8.2	4.6	4.5	6.3	8.6	5.7	6.0
Ukraine	-14.8	4.2	4.5	4.9	15.9	9.4	9.2	8.3
Memorandum								
World	-0.5	5.0	4.4	4.5	2.5	3.7	4.5	3.4
Advanced economy	-3.4	3.0	2.4	2.6	0.1	1.6	2.2	1.7
Emergent and developing	2.7	7.3	6.5	6.5	5.2	6.2	6.9	5.3
USA	-2.6	2.8	2.8	2.9	-0.3	1.6	2.2	1.6
Japan	-6.3	3.9	1.4	2.1	-1.4	-0.7	0.2	0.2
China	9.2	10.3	9.6	9.5	-0.7	3.3	5.0	2.5

Source: IMF, World Economic Outlook.

[1] Average weighted by GDP valued at purchasing power parity

Annex 2

Emerging Europe: GDP growth in domestic demand, exports and private consumption

	Real GDP growth				**Real growth of domestic demand**				**Real growth of** export				**Real growth of** private consumption			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Baltics[2]	**-15.9**	**0.7**	**4.1**	**3.9**	**-26.2**	**1.6**	**5.0**	**4.1**	**-13.2**	**14.1**	**9.2**	**7.5**	**-20.1**	**-2.6**	**2.7**	**3.0**
Latvia	**-18.0**	**-0.3**	**3.3**	**4.0**	**-27.6**	**-0.9**	**3.0**	**4.3**	**-14.1**	**10.3**	**7.0**	**5.7**	**-24.1**	**-0.1**	**3.0**	**4.0**
Lithuania	**-14.7**	**1.3**	**4.6**	**3.8**	**-25.4**	**3.0**	**6.1**	**4.0**	**-12.7**	**16.3**	**10.5**	**8.5**	**-17.7**	**-4.1**	**2.5**	**2.4**
Central Europe [2]	**-0.1**	**3.3**	**3.6**	**3.4**	**-3.1**	**2.9**	**3.2**	**3.4**	**-7.4**	**11.0**	**7.5**	**6.7**	**0.2**	**2.0**	**3.2**	**3.3**
Hungary	**-6.7**	**1.2**	**2.8**	**2.8**	**-10.8**	**-1.6**	**2.3**	**2.5**	**-9.6**	**13.9**	**9.3**	**8.7**	**-6.8**	**-2.6**	**1.5**	**2.2**
Poland	**1.7**	**3.8**	**3.8**	**3.6**	**-1.0**	**4.0**	**3.4**	**3.7**	**-6.8**	**10.2**	**7.0**	**6.2**	**2.0**	**3.2**	**3.6**	**3.6**
Southeastern Europe-EU[2]	**-6.6**	**-0.9**	**1.9**	**4.1**	**-12.8**	**-1.9**	**1.0**	**4.0**	**-6.9**	**14.0**	**9.4**	**8.0**	**-9.5**	**-1.5**	**1.7**	**4.0**
Bulgaria	**-5.5**	**0.2**	**3.0**	**3.5**	**-12.7**	**-4.5**	**3.0**	**3.5**	**-11.2**	**16.2**	**9.8**	**7.5**	**-7.6**	**-1.2**	**3.6**	**4.0**
Romania	**-7.1**	**-1.3**	**1.5**	**4.4**	**-12.9**	**-1.0**	**0.3**	**4.2**	**-5.3**	**13.1**	**9.3**	**8.2**	**-10.2**	**-1.7**	**1.0**	**4.1**
Southeastern Europe-non-EU[2]	**-3.0**	**0.8**	**2.5**	**3.6**	**-7.2**	**-3.3**	**1.3**	**3.4**	**-12.8**	**14.0**	**9.3**	**6.8**	**-4.2**	**-1.0**	**1.1**	**3.4**
Albania	**3.3**	**3.5**	**3.4**	**3.6**	**3.1**	**-8.0**	**4.1**	**2.6**	**-1.7**	**29.0**	**1.2**	**7.6**	**6.5**	**-5.1**	**3.3**	**2.4**
Bosnia and Herzegovina	**-3.1**	**0.8**	**2.2**	**4.0**	**-6.4**	**-1.4**	**1.3**	**4.1**	**-6.2**	**9.7**	**6.0**	**4.8**	**-3.9**	**0.8**	**0.8**	**3.3**
Croatia	**-5.8**	**-1.4**	**1.3**	**1.8**	**-9.3**	**-5.1**	**0.7**	**2.0**	**-16.2**	**4.1**	**3.3**	**2.1**	**-8.5**	**-1.2**	**0.1**	**0.5**
Kosovo	**2.9**	**4.0**	**5.5**	**5.2**												
FYR Macedonia	**-0.9**	**0.7**	**3.0**	**3.7**	**-2.9**	**-1.1**	**2.4**	**3.8**	**-10.7**	**22.7**	**18.7**	**13.0**	**-3.9**	**1.1**	**2.4**	**3.9**
Rep. Montenegro	**-5.7**	**1.1**	**2.0**	**3.5**	**-16.9**	**-3.3**	**-1.2**	**1.2**	**-22.4**	**9.0**	**8.2**	**5.3**	**-13.4**	**6.8**	**-2.3**	**-0.1**
Serbia	**-3.1**	**1.8**	**3.0**	**5.0**	**-8.6**	**-1.2**	**0.9**	**4.8**	**-15.0**	**19.1**	**16.6**	**10.2**	**-2.4**	**-1.3**	**1.3**	**6.6**
European CIS countries[2]	**-8.2**	**4.2**	**4.9**	**4.6**	**-14.4**	**6.5**	**7.6**	**6.1**	**-7.3**	**10.0**	**3.4**	**4.2**	**-5.7**	**3.4**	**7.2**	**6.8**
Belarus	**0.2**	**7.6**	**6.8**	**4.8**	**-1.1**	**10.3**	**6.1**	**5.0**	**-9.0**	**5.1**	**13.3**	**4.7**	**0.0**	**8.6**	**6.9**	**6.9**
Moldova	**-6.0**	**6.9**	**4.5**	**4.8**	**-18.6**	**9.6**	**5.9**	**5.5**	**-12.1**	**12.8**	**7.1**	**9.2**	**-8.0**	**9.0**	**5.8**	**5.3**
Russia	**-7.8**	**4.0**	**4.8**	**4.5**	**-14.0**	**6.3**	**7.8**	**6.3**	**-4.7**	**10.2**	**2.4**	**3.8**	**-4.9**	**2.8**	**7.1**	**7.0**
Ukraine	**-14.8**	**4.2**	**4.5**	**4.9**	**-22.6**	**6.2**	**6.3**	**5.3**	**-25.1**	**10.4**	**5.9**	**6.7**	**-13.9**	**5.9**	**7.5**	**5.3**
Turkey	**-4.7**	**8.2**	**4.6**	**4.5**	**-7.2**	**12.2**	**5.3**	**5.1**	**-5.3**	**2.6**	**6.2**	**6.1**	**-2.2**	**7.3**	**6.1**	**5.7**
Emerging Europe[2].[3]	**-5.9**	**4.2**	**4.3**	**4.3**	**-10.9**	**5.8**	**5.6**	**5.2**	**-7.3**	**9.3**	**5.4**	**5.4**	**-4.5**	**3.3**	**5.6**	**5.6**
New EU member states[2]."	**-3.5**	**2.2**	**3.0**	**3.5**	**-7.0**	**1.4**	**2.4**	**3.4**	**-9.0**	**13.0**	**8.3**	**6.8**	**-3.1**	**0.6**	**2.4**	**3.3**
Memorandum																

	Real GDP growth				**Real growth of domestic demand**				**Real growth of** export				**Real growth of** private consumption			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Czech Republic	**-4.1**	**2.3**	**1.7**	**2.9**	**-3.7**	**1.1**	**1.0**	**2.2**	**-10.8**	**18.0**	**10.3**	**6.3**	**-0.2**	**0.4**	**0.9**	**2.3**
Estonia	**-13.9**	**3.1**	**3.3**	**3.7**	**-20.5**	**-3.8**	**3.5**	**3.7**	**-18.7**	**21.7**	**4.1**	**4.9**	**-18.8**	**-1.9**	**2.4**	**2.4**
Slovakia	**-4.8**	**4.0**	**3.8**	**4.2**	**-7.9**	**2.7**	**1.8**	**3.6**	**-15.9**	**16.4**	**8.5**	**6.6**	**0.3**	**-0.3**	**2.3**	**3.8**
Slovenia	**-8.1**	**1.2**	**2.0**	**2.4**	**-10.1**	**0.4**	**1.0**	**2.2**	**-17.7**	**7.8**	**6.8**	**5.7**	**-0.8**	**0.5**	**1.2**	**2.2**
European Union [2,5]	**-4.1**	**1.8**	**1.8**	**2.1**	**-4.2**	**1.3**	**1.0**	**1.6**	**-12.6**	**10.1**	**6.6**	**5.1**	**-1.7**	**0.8**	**1.2**	**1.6**

[1] *Real export of goods and services;* [2] *Average weighted by GDP at PPP;* [3] *Includes: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro Rep., Poland, Romania, Russia, Serbia, Turkey and Ukraine;* [4] *Includes: Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia;* [5] *Includes: Austria, Belgium, Bulgaria, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Nederland, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and England.*

Source: IMF *World Economic Outlook.*

Annex 3

Inflation (CPI), the current account and external debt, 2009-2012 (%)

	CPI Inflation (average)				**CPI inflation at the end** of the period				**Current account balance / GDP**				**Total external debt / GDP**			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Baltics[1]	**4.0**	**0.3**	**3.1**	**2.5**	**0.3**	**3.2**	**2.9**	**2.4**	**6.2**	**2.5**	**0.5**	**-1.2**	**118.2**	**117.4**	**109.6**	**103.0**
Latvia	**3.3**	**-1.2**	**3.0**	**1.7**	**-1.4**	**2.4**	**1.9**	**2.3**	**8.6**	**3.6**	**2.6**	**1.5**	**156.3**	**165.2**	**152.0**	**141.2**
Lithuania	**4.4**	**1.2**	**3.1**	**2.9**	**1.3**	**3.6**	**3.5**	**2.5**	**4.5**	**1.8**	**-0.9**	**-2.9**	**91.4**	**85.7**	**82.2**	**78.5**
Central Europe [1]	**3.6**	**3.1**	**4.1**	**3.0**	**3.9**	**3.3**	**3.8**	**2.8**	**-1.8**	**-2.2**	**-2.8**	**-3.1**	**85.3**	**83.5**	**83.7**	**81.5**
Hungary	**4.2**	**4.9**	**4.1**	**3.5**	**5.6**	**4.2**	**3.9**	**3.2**	**-0.5**	**1.6**	**1.5**	**0.9**	**153.3**	**143.9**	**140.6**	**131.5**
Poland	**3.5**	**2.6**	**4.1**	**2.9**	**3.5**	**3.1**	**3.8**	**2.7**	**-2.2**	**-3.3**	**-3.9**	**-4.2**	**64.9**	**66.8**	**68.4**	**68.5**
Southeastern Europe-EU[1]	**4.7**	**5.3**	**5.7**	**3.5**	**3.9**	**7.0**	**4.4**	**2.8**	**-5.5**	**-3.4**	**-4.2**	**-4.4**	**81.4**	**80.6**	**82.4**	**78.5**
Bulgaria	**2.5**	**3.0**	**4.8**	**3.7**	**1.6**	**4.4**	**5.3**	**2.4**	**-10.0**	**-0.8**	**-1.5**	**-2.0**	**113.6**	**102.3**	**94.7**	**88.2**
Romania	**5.6**	**6.1**	**6.1**	**3.4**	**4.8**	**8.0**	**4.0**	**3.0**	**-4.2**	**-4.2**	**-5.0**	**-5.2**	**71.8**	**74.2**	**78.7**	**75.6**
Southeastern Europe— , non-EU[1]	**3.7**	**3.2**	**6.1**	**3.1**	**3.1**	**5.1**	**4.9**	**3.0**	**-7.8**	**-5.7**	**-6.9**	**-6.6**	**78.4**	**78.4**	**73.8**	**72.5**
Albania	**2.2**	**3.6**	**4.5**	**3.5**	**3.7**	**3.4**	**4.0**	**2.9**	**-14.0**	**-10.1**	**-11.2**	**-9.8**	**33.5**	**41.6**	**37.7**	**39.1**
Bosnia and Herzegovina	**-0.4**	**2.1**	**5.0**	**2.5**	**0.0**	**3.1**	**5.0**	**2.5**	**-6.9**	**-6.0**	**-6.0**	**-5.7**	**54.9**	**54.6**	**58.6**	**58.4**
Croatia	**2.4**	**1.0**	**3.5**	**2.4**	**1.9**	**1.9**	**3.5**	**2.4**	**-5.5**	**-1.9**	**-3.6**	**-3.6**	**101.9**	**99.3**	**93.4**	**91.4**
Kosovo	**-2.4**	**3.5**	**8.2**	**2.1**	**0.1**	**6.6**	**5.6**	**2.0**	**-16.8**	**-17.3**	**-23.1**	**-25.6**				
FYR Macedonia	**-0.8**	**1.5**	**5.2**	**2.0**	**-1.6**	**3.0**	**7.5**	**2.0**	**-6.4**	**-2.8**	**-4.2**	**-4.8**	**57.5**	**56.5**	**57.3**	**58.2**
Rep.Montenegro	**3.4**	**0.5**	**3.1**	**2.0**	**1.5**	**0.7**	**3.0**	**1.8**	**-30.3**	**-25.6**	**-24.5**	**-22.1**	**97.8**	**100.2**	**99.0**	**97.5**
Rep.Serbia	**8.1**	**6.2**	**9.9**	**4.1**	**6.6**	**10.3**	**6.0**	**4.0**	**-6.9**	**-7.1**	**-7.4**	**-6.6**	**78.7**	**81.6**	**74.0**	**72.8**
European CIS countries[1]	**12.2**	**7.2**	**9.5**	**8.1**	**9.2**	**8.9**	**8.9**	**7.6**	**2.9**	**3.6**	**4.2**	**2.7**	**43.1**	**37.3**	**30.7**	**28.1**
Belarus	**13.0**	**7.7**	**12.9**	**9.7**	**10.1**	**9.9**	**13.0**	**9.0**	**-13.0**	**-15.5**	**-15.7**	**-15.2**	**44.9**	**51.5**	**57.9**	**63.4**
Moldova	**0.0**	**7.4**	**7.5**	**6.3**	**0.4**	**8.1**	**7.5**	**5.0**	**-8.5**	**-10.9**	**-11.1**	**-11.2**	**65.5**	**67.4**	**70.3**	**74.0**
Russia	**11.7**	**6.9**	**9.3**	**8.0**	**8.8**	**8.8**	**8.5**	**7.5**	**4.1**	**4.9**	**5.6**	**3.9**	**38.6**	**32.3**	**25.5**	**22.6**
Ukraine	**15.9**	**9.4**	**9.2**	**8.3**	**12.3**	**9.1**	**10.2**	**7.7**	**-1.5**	**-1.9**	**-3.6**	**-3.8**	**88.0**	**83.9**	**80.7**	**80.3**
Turkey	**6.3**	**8.6**	**5.7**	**6.0**	**6.5**	**6.4**	**7.0**	**5.4**	**-2.3**	**-6.5**	**-8.0**	**-8.2**	**43.7**	**40.7**	**43.7**	**46.2**
Emerging Europe[1]-[2]	**8.5**	**6.3**	**7.3**	**6.2**	**7.0**	**7.1**	**7.1**	**5.8**	**-0.1**	**-0.5**	**-0.3**	**-1.1**	**57.3**	**52.0**	**47.7**	**45.4**
New EU member states[1]-[3]	**3.2**	**2.9**	**3.9**	**2.9**	**2.9**	**3.7**	**3.6**	**2.7**	**-2.0**	**-2.2**	**-2.6**	**-2.8**	**75.7**	**75.1**	**73.9**	**71.2**
Memorandum																
Czech Rep.	**1.0**	**1.5**	**2.0**	**2.0**	**1.0**	**2.3**	**2.2**	**2.0**	**-1.1**	**-2.4**	**-1.8**	**-1.2**	**45.5**	**47.4**	**44.0**	**42.0**
Estonia	**-0.1**	**2.9**	**4.7**	**2.1**	**-1.7**	**5.4**	**3.5**	**2.0**	**4.5**	**3.6**	**3.3**	**3.1**	**125.8**	**117.6**	**100.5**	**95.0**

	CPI Inflation (average)				**CPI inflation at the end** of the period				**Current account balance / GDP**				**Total external debt / GDP**			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Slovakia	**0.9**	**0.7**	**3.4**	**2.7**	**0.1**	**1.3**	**3.4**	**2.9**	**-3.6**	**-3.4**	**-2.8**	**-2.7**	**71.9**	**72.1**	**70.4**	**67.8**
Slovenia	**0.9**	**1.8**	**2.2**	**3.1**	**1.8**	**1.9**	**3.0**	**2.7**	**-1.5**	**-1.2**	**-2.0**	**-2.1**	**105.2**	**113.8**	**113.3**	**114.4**
European Union[1,1]	**0.9**	**2.0**	**2.7**	**1.9**	**1.2**	**2.5**	**2.5**	**1.9**	**-0.2**	**-0.1**	**-0.2**	**-0.1**				

[1] *Real export of goods and services;* [2] *Average weighted by GDP at PPP;* [3] *Includes: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Rep.Montenegro, Poland, Romania, Russia, Serbia, Turkey and Ukraine;* [4] *Includes: Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia;* [5] *Include: Austria, Belgium, Bulgaria, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Nederland, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and England.*

Source: IMF, *World Economic Outlook.*

Annex 4

Saving-investment balance by sectors in some European countries during 2000-2007
(% of GDP, unless otherwise specified)

	Households			**Non-financial corporations**			**Financial corporations**			Government			Total		
	S(E)	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**
	Year 2007														
Countries with surplus	10.2	6.5	3.8	12.6	11.1	1.5	1.0	0.3	0.7	2.8	1.7	1.0	26.6	19.6	7.0
Nederland	6.9	7.5	-0.5	17.0	9.3	7.7	1.5	0.4	1.2	3.4	3.3	0.1	28.8	20.4	8.4
Germany	11.5	6.2	5.3	11.4	10.5	0.8	0.7	0.1	0.6	2.4	1.4	1.0	26.0	18.3	7.6
Finland	3.9	7.7	-3.7	14.9	12.5	2.5	0.7	0.3	0.4	7.6	2.5	5.1	27.1	22.9	4.2
Austria	10.2	5.3	5.0	12.0	16.0	-4.0	2.3	0.7	1.6	2.6	1.1	1.4	27.2	23.2	4.0
Belgium	10.0	6.7	3.3	13.6	13.7	0.0	1.3	0.8	0.6	1.7	1.6	0.1	26.7	22.8	3.9
Countries with deficit [1]	9.0	7.7	-1.0	6.8	12.8	-2.9	1.5	0.5	0.6	2.8	3.2	-0.4	20.0	24.2	-4.2
Italy	10.2	6.9	3.3	6.3	12.2	-5.9	1.3	0.4	0.9	2.3	2.3	0.0	20.1	21.9	-1.8
France	10.2	7.0	3.1	7.9	11.1	-3.2	0.8	0.8	0.0	1.1	3.3	-2.2	20.0	22.2	-2.2
Ireland	3.3	12.2	-8.8	9.3	9.8	-0.4	4.9	0.6	4.3	4.1	4.7	-0.5	21.7	27.2	-5.5
Spain	6.9	9.7	-2.8	5.2	17.2	-12.0	2.1	0.1	2.0	6.9	4.0	2.8	21.0	31.0	-10.0
Portugal	4.9	5.8	-0.9	5.6	13.6	-8.0	2.6	1.0	1.6	-0.5	2.4	-2.9	12.7	22.9	-10.2
Greece[2]	-1.1	9.4	-10.5	10.7	7.2	3.5	2.0	0.3	1.7	-2.5	2.8	-5.3	9.0	19.7	-10.7
Hard peg	-6.3	4.8	-11.1	16.0	26.0	-10.0	1.3	0.1	1.1	6.0	5.4	0.6	16.9	36.3	-19.4
Lithuania	-3.2	3.9	-7.1	13.9	21.5	-7.6	1.5	0.1	1.3	3.6	5.3	-1.7	15.8	30.9	-15.1
Estonia	-0.9	8.5	-9.4	15.5	26.1	-10.6	-0.2	-0.1	-0.1	7.6	5.1	2.5	22.0	39.6	-17.7
Latvia	-3.0	5.0	-8.0	12.4	29.1	-16.7	3.0	0.0	3.0	5.7	6.3	-0.6	18.1	40.4	-22.3
Bulgaria	-14.9	3.5	-18.4	21.0	28.0	-7.0	0.7	0.4	0.3	7.6	4.9	2.7	14.3	36.8	-22.5
	Year 2000														
Countries with surplus	9.6	7.2	2.5	8.9	12.2	-3.3	1.5	0.7	0.8	2.4	2.0	0.4	22.4	22.0	0.4
Nederland	6.9	7.0	-0.1	13.8	10.4	3.4	3.1	1.4	1.7	4.5	3.1	1.4	28.4	22.0	6.4
Germany	10.5	7.5	2.9	6.9	12.0	-5.1	1.2	0.5	0.7	1.6	1.8	-0.2	20.2	21.8	-1.6
Finland	4.4	6.6	-2.3	14.7	11.6	3.1	0.1	0.2	-0.1	9.3	2.4	6.8	28.5	20.9	7.6
Austria	8.9	5.7	3.1	11.3	16.0	-4.7	2.1	1.0	1.1	1.3	1.5	-0.2	23.6	24.3	-0.7
Belgium	10.6	5.9	4.8	12.5	13.8	-1.3	1.0	0.9	0.1	2.6	2.0	0.6	26.7	22.5	4.2
Countries with deficit [1]	9.2	6.5	2.7	8.8	11.9	-3.1	1.2	0.6	0.6	2.0	2.9	-0.9	21.2	21.9	-0.7
Italy	9.9	6.5	3.4	8.6	11.3	-2.8	0.8	0.6	0.3	1.3	2.3	-1.0	20.6	20.7	-0.1
France	9.8	5.7	4.0	8.3	10.8	-2.5	1.4	0.8	0.5	2.1	3.1	-1.0	21.6	20.5	1.1

	Households			**Non-financial corporations**			**Financial corporations**			Government			Total		
	S(E)	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**	**S(E)**	I	**Net**
Ireland[3]	4.9	7.4	-2.5	9.4	8.9	0.6	2.2	0.4	1.8	3.9	4.3	-0.3	20.5	20.9	-0.4
Spain	7.5	7.4	0.1	10.3	15.3	-5.0	1.5	0.4	1.1	3.0	3.2	-0.1	22.3	26.3	-4.0
Portugal	7.5	8.8	-1.2	8.0	15.4	-7.4	1.7	0.7	1.0	0.5	3.7	-3.1	17.8	28.5	-10.7
Greece	2.4	11.5	-9.1	8.3	7.8	0.6	0.7	0.4	0.3	-0.2	3.6	-3.8	11.3	23.3	-12.0
Hard peg	-1.1	2.2	**-3.3**	13.4	17.**6**	-4.2	1.8	**0**.7	1.1	**3**.1	2.**6**	**0.5**	17.2	23.**0**	**-5**.8
Lithuania	4.5	3.7	0.9	5.6	12.5	-6.9	1.3	0.4	1.0	1.5	2.4	-0.8	13.0	18.9	-5.9
Estonia	2.3	3.4	-1.0	16.0	21.2	-5.1	1.5	0.3	1.2	3.5	3.8	-0.3	23.4	28.7	-5.3
Latvia	1.5	1.4	0.2	14.4	19.9	-5.5	2.7	1.1	1.6	0.2	1.4	-1.1	18.9	23.7	-4.8
Bulgaria[4]	-9.3	0.8	-10.1	18.8	19.2	-0.4	1.6	0.8	0.8	6.1	2.9	3.2	17.3	23.8	-6.5
	Changes in 2007 compared to 2000 (percentage points of GDP)														
Countries with surplus	**0.6**	**-0**.7	1.**3**	**3**.7	-1.**0**	4.8	**-0.5**	**-0**.4	**-0**.1	**0**.4	**-0**.2	**0.6**	4.2	-2.4	**6.6**
Nederland	0.0	0.4	-0.4	3.2	-1.1	4.3	-1.6	-1.1	-0.5	-1.1	0.2	-1.3	0.4	-1.6	2.0
Germany	1.0	-1.3	2.3	4.5	-1.4	5.9	-0.5	-0.4	-0.2	0.8	-0.3	1.2	5.8	-3.5	9.3
Finland	-0.4	1.0	-1.5	0.2	0.9	-0.6	0.5	0.1	0.5	-1.7	0.0	-1.8	-1.4	2.0	-3.4
Austria	1.4	-0.4	1.8	0.7	0.0	0.7	0.2	-0.3	0.5	1.3	-0.4	1.6	3.6	-1.1	4.7
Belgium	-0.6	0.9	-1.5	1.2	-0.1	1.3	0.4	-0.1	0.5	-0.8	-0.3	-0.5	0.1	0.3	-0.3
Countries with deficit[1]	**-0**.2	1.3	**-3**.7	**-2.0**	**0.9**	**0**.2	**0**.2	**-0**.1	**0**.1	**0**.8	**0.3**	**0.5**	-1.1	2.**3**	**-3.5**
Italy	0.3	0.4	-0.1	-2.2	0.9	-3.2	0.5	-0.2	0.6	1.0	0.0	1.0	-0.5	1.2	-1.7
France	0.4	1.3	-0.9	-0.4	0.3	-0.7	-0.6	-0.1	-0.5	-1.0	0.2	-1.2	-1.6	1.7	-3.3
Ireland	-1.6	4.7	-6.3	-0.1	0.9	-1.0	2.7	0.2	2.4	0.2	0.4	-0.2	1.2	6.3	-5.1
Spain	-0.6	2.3	-2.9	-5.1	1.8	-6.9	0.6	-0.3	0.9	3.8	0.9	3.0	-1.3	4.7	-6.0
Portugal	-2.6	-3.0	0.4	-2.4	-1.7	-0.6	0.9	0.3	0.6	-1.0	-1.2	0.2	-5.0	-5.6	0.6
Greece	-3.5	-2.1	-1.4	2.4	-0.5	2.9	1.2	-0.1	1.3	-2.4	-0.8	-1.5	-2.3	-3.6	1.3
Hard peg	**-5.3**	2.**6**	-7.**9**	2.**5**	8.4	**-5**.8	**-0.5**	**-0.5**	**0.0**	2.**9**	2.8	**0**.1	**-0.3**	13.**3**	-13.**6**
Lithuania	-7.7	0.2	-8.0	8.3	9.1	-0.8	0.1	-0.2	0.4	2.1	2.9	-0.8	2.8	12.0	-9.2
Estonia	-3.3	5.1	-8.4	-0.6	4.9	-5.5	-1.7	-0.4	-1.3	4.1	1.3	2.8	-1.4	11.0	-12.4
Latvia	-4.5	3.6	-8.1	-2.0	9.2	-11.3	0.2	-1.1	1.4	5.5	5.0	0.5	-0.8	16.7	-17.5
Bulgaria	-5.6	2.7	-8.3	2.2	8.8	-6.6	-1.0	-0.4	-0.5	1.5	2.0	-0.5	-3.0	13.0	-16.0

Source: Eurostat IMF, World Economic Outlook database and IMF staff calculations
1Exclusively Greece, 2 2006, 3 2002, 4 2004
Note: E represents gross savings; I – gross investments; Net = E-I
Country groups averages are weighted with weights of nominal GDP in 2000 and 2007.

Annex 5

Emerging Europe: evolution of public debt and the general government balance

(% of GDP)

	General government balance				Public debt			
	2009	2010	2011	2012	2009	2010	2011	2012
Baltics	-8.7	-7.7	-5.8	-4.2	30.8	39.1	43.1	43.8
Latvia	-7.8	-7.9	-5.3	-1.9	32.8	39.9	42.5	41.0
Lithuania	-9.2	-7.6	-6.0	-5.5	29.6	38.7	43.5	45.4
Central Europe	-6.6	-7.1	-3.7	-4.2	56.7	60.8	60.7	61.3
Hungary	-4.3	-4.1	3.9	-4.3	78.4	80.4	76.6	76.9
Poland	-7.2	-7.9	-5.7	-4.2	50.9	55.7	56.6	57.3
Southeastern Europe-EU	-5.6	-5.7	-3.9	-2.6	25.8	30.5	32.8	32.8
Bulgaria	-0.9	-3.6	-2.6	-1.5	15.6	18.0	19.7	20.0
Romania	-7.3	-6.5	-4.4	-3.0	29.6	35.2	37.8	37.7
Southeastern Europe-non-EU	-4.5	-4.4	-4.5	-3.9	37.5	41.8	42.6	43.6
Albania	-7.5	-3.7	-4.6	-4.6	60.2	59.7	59.9	60.4
Bosnia and Herzegovina	-5.6	-4.0	-3.0	-1.9	35.4	36.9	41.4	41.4
Croatia	-4.1	-5.3	-6.3	-6.1	35.4	40.0	44.1	47.6
Kosovo	-0.7	-2.9	-3.3	-4.1				
FYR Macedonia	-2.7	-2.5	-2.5	-2.2	23.9	24.8	26.8	27.4
Rep. Montenegro	-6.5	-3.8	-3.4	-2.5	40.7	44.1	43.1	42.2
Serbia	-4.3	-4.5	-4.1	-2.8	36.8	44.0	40.5	39.8
European CIS countries	-6.0	-3.7	-1.7	-1.8	14.3	14.1	13.3	13.8
Belarus	-0.7	-1.8	-1.9	-2.0	20.0	22.4	25.3	27.1
Moldova	-6.3	-2.5	-1.9	-0.7	31.6	29.8	30.4	32.4
Russia	-6.3	-3.6	-1.6	-1.7	11.0	9.9'	8.5	8.8
Ukraine	-6.2	-5.8	-2.8	-2.5	35.3	40.5	42.6	43.5
Turkey	-6.2	-3.4	-2.2	-2.0	45.5	41.7	39.4	37.6
Emerging Europe	-6.1	-4.5	-2.5	-2.4	29.5	30.1	29.4	29.4
New EU member **States**	-6.4	-6.5	-3.9	-3.7	43.4	48.1	49.4	50.1
Memorandum								
Czech Republic	-5.8	-4.9	-3.7	-3.6	35.4	39.6	41.7	43.4
Estonia	-2.1	0.2	-1.0	-0.7	7.2	6.6	6.3	6.0
Slovakia	-7.9	-8.2	-5.2	-3.9	35.4	42.0	45.1	46.2
Slovenia	-5.8	-5.7	-2.0	-3.3	35.4	37.2	42.3	44.9
European Union	-6.8	-6.6	-4.8	-4.0	72.3	78.2	80.6	81.8

Source: IMF, World Economic Outlook database

Annex 6

Emerging Europe of selected indicators of financial solidity 2007-2010[1]

%

	Income to assets					Share of NPL to total loans				
	2007	2008	2009	2010	Latest	2007	2008	2009	2010	Latest
Albania	1.6	0.9	0.4	0.7	Dec.	3.4	6.6	10.5	13.9	Dec.
Belarus	1.7	1.4	1.4	1.7	Dec.	1.9	1.7	4.2	3.5	Dec.
Bosnia and Herzegovina	0.9	0.4	0.1	-0.5	Sept.	3.0	3.1	5.9	9.2	Sept.
Bulgaria	2.4	2.1	1.1	0.9	Dec.	2.1	2.5	6.4	11.9	Dec.
Croatia	1.6	1.6	1.1	1.2	Dec.	4.8	4.9	7.8	11.2	Dec.
Hungary	1.2	0.8	0.7	0.1	Dec.	2.3	3.0	6.7	9.1	Dec.
Latvia	2.0	0.3	-3.5	-1.6	Dec.	0.8	3.6	16.4	19.0	Dec.
Lithuania	1.7	1.0	-4.2	-0.3	Dec.	1.0	4.6	19.3	19.7	Dec.
FYR Macedonia	1.8	1.4	0.6	0.8	Dec.	7.5	6.7	8.9	9.0	Dec.
Moldova	3.9	3.5	-0.5	0.5	Dec.	3.7	5.2	16.4	13.3	Dec.
Montenegro	0.7	-0.6	-0.7	-2.7	Dec.	3.2	7.2	13.5	21.0	Dec.
Poland	1.9	1.5	0.8	1.1	Dec.	5.2	4.5	8.0	8.8	Dec.
Romania	1.0	1.6	0.2	-0.1	Dec.	2.6	2.8	7.9	11.9	Dec.
Russia	3.0	1.8	0.7	1.9	Dec.	2.5	3.8	9.5	8.2	Dec.
Serbia	1.7	2.1	1.3	1.2	Sept.		11.3	15.5	17.8	Sept.
Turkey	2.6	1.8	2.4	2.2	Dec.	3.6	3.8	5.6	3.8	Dec.
Ukraine	1.5	1.0	-4.4	-1.5	Dec.	3.0	3.9	13.7	15.3	Dec.

[1] *it refers to Global Financial Stability Report (April 2011)*
Source: *IMF, Global Financial Stability Report (April 2011)*

Annex 7

The main macroeconomic indicators in developing countries during 2009-2012

%

	Current account balance to GDP				General government balance to GDP			
	2009	2010	2011	2012	2009	2010	2011	2012
Advanced European economies"	**0.5**	**0.8**	**0.9**	**0.9**	**-6.3**	**-6.1**	**-4.5**	**-3.6**
Euro area	**-0.6**	**-0.6**	**0.0**	**0.0**	**-6.3**	**-6.1**	**-4.4**	**-3.6**
Austria	**2.9**	**3.2**	**3.1**	**3.1**	**-3.5**	**-4.1**	**-3.1**	**-2.9**
Belgium	**0.8**	**1.2**	**1.0**	**1.2**	**-6.0**	**-4.6**	**-3.9**	**-4.0**
Cyprus	**-7.5**	**-7.0**	**-8.9**	**-8.7**	**-6.0**	**-5.4**	**-4.5**	**-3.7**
Estonia	**4.5**	**3.6**	**3.3**	**3.1**	**-2.1**	**0.2**	**-1.0**	**-0.7**
Finland	**2.3**	**3.1**	**2.8**	**2.6**	**-2.9**	**-2.8**	**-1.2**	**-1.1**
France	**-1.9**	**-2.1**	**-2.8**	**-2.7**	**-7.6**	**-7.7**	**-6.0**	**-5.0**
Germany	**5.0**	**5.3**	**5.1**	**4.6**	**-3.0**	**-3.3**	**-2.3**	**-1.5**
Greece	**-11.0**	**-10.4**	**-8.2**	**-7.1**	**-15.4**	**-9.6**	**-7.4**	**-6.2**
Ireland	**-3.0**	**-0.7**	**0.2**	**0.6**	**-14.4**	**-32.2**	**-10.8**	**-8.9**
Italy	**-2.1**	**-3.5**	**-3.4**	**-3.0**	**-5.3**	**-4.6**	**-4.3**	**-3.5**
Luxemburg	**6.7**	**7.7**	**8.5**	**8.7**	**-0.7**	**-1.7**	**-1.1**	**-0.8**
Malta	**-6.9**	**-0.6**	**-1.1**	**-2.3**	**-3.7**	**-3.8**	**-2.9**	**-2.9**
Nederland	**4.6**	**7.1**	**7.9**	**8.2**	**-5.4**	**-5.2**	**-3.8**	**-2.7**
Portugal	**-10.9**	**-9.9**	**-8.7**	**-8.5**	**-9.3**	**-7.3**	**-5.6**	**-5.5**
Slovakia	**-3.6**	**-3.4**	**-2.8**	**-2.7**	**-7.9**	**-8.2**	**-5.2**	**-3.9**
Slovenia	**-1.5**	**-1.2**	**-2.0**	**-2.1**	**-5.5**	**-5.2**	**-4.8**	**-4.3**
Spain	**-5.5**	**-4.5**	**-4.8**	**-4.5**	**-11.1**	**-9.2**	**-6.2**	**-5.6**
Other EU advanced economies								
Czech Rep.	**-1.1**	**-2.4**	**-1.8**	**-1.2**	**-5.8**	**-4.9**	**-3.7**	**-3.6**
Denmark	**3.8**	**5.0**	**4.8**	**4.8**	**-2.8**	**-4.9**	**-3.6**	**-2.6**
Sweden	**7.2**	**6.5**	**6.1**	**5.8**	**-0.8**	**-0.2**	**0.1**	**0.4**
England	**-1.7**	**-2.5**	**-2.4**	**-1.9**	**-10.3**	**-10.4**	**-8.6**	**-6.9**
Non-EU advanced economies								
Iceland	**-10.4**	**-8.0**	**1.1**	**2.1**	**-9.0**	**-6.8**	**-4.6**	**-1.3**
Israel	**3.6**	**3.1**	**3.3**	**3.1**	**-5.6**	**-4.1**	**-3.2**	**-2.2**
Norway	**13.1**	**12.9**	**16.3**	**16.0**	**10.4**	**10.9**	**13.0**	**12.7**
Switzerland	**11.5**	**14.2**	**13.2**	**12.8**	**0.8**	**0.2**	**0.3**	**0.6**
European Union[2]	**-0.2**	**-0.1**	**-0.2**	**-0.1**	**-6.8**	**-6.6**	**-4.8**	**-4.0**

Source: *IMF, World Economic Outlook database.*

[1]*Only net loans*

[2]*Weighted average. General government budget weighted by PPP of GDP, current account balance in USD-weighted GDP*